

Address by José Manuel Barroso on the State of the Union (28 September 2011)

Caption: Given its power of scrutiny, the European Parliament exercises democratic supervision over the Commission, which regularly submits reports to Parliament, including an annual report on the activities of the European Union and the implementation of the budget. Once a year, the President of the Commission gives his address on the State of the Union at the European Parliament plenary session.

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WEDNESDAY, 28 SEPTEMBER 2011

IN THE CHAIR: JERZY BUZEK

President

1. Opening of the sitting

(The sitting opened at 09.05)

2. Implementing measures (Rule 88): see Minutes

3. State of the Union (debate)

President. – I declare the sitting open. We have an important debate today, namely the statement by the President of the Commission on the State of the Union.

After yesterday's discussion with the President of the Euro Group and Prime Minister of Luxembourg Mr Jean-Claude Juncker, which was very important for all of us, this is another debate which is going to give us a greater insight into the best solutions for the Union today and provide answers to the most important questions. So we in Parliament are treating this debate very seriously.

Welcome to the President of the European Commission, Mr José Manuel Barroso, the Vice-Presidents who are present with us, the full college of Commissioners, and representatives of the Polish Presidency. Minister Dowgielewicz is also with us.

I give the floor to the President of the European Commission, Jose Manuel Barroso.

José Manuel Barroso, *President of the Commission.* – (FR) Mr President, honourable Members, Mr Dowgielewicz, we need to be honest and absolutely clear in the analysis of the state of the Union.

We are currently facing the greatest challenge that our Union has ever faced, I believe, in its entire history. This is a financial, economic and social crisis, but also a confidence crisis; a confidence crisis both in relation to our leaders in general, to Europe itself, and in relation to our ability to find solutions.

The causes of the crisis are known: Europe has not met the challenges of competitiveness. Some of our Member States have lived above their means. In the financial markets, there has been irresponsible and unacceptable behaviour. We have let the gap widen between our Member States, particularly in the euro area. What is more, the shocks that have shaken the international order and the pressures of globalisation have made the situation even worse.

The outcome is there to be seen: our societies are deeply concerned. Many of our citizens fear for the future. There is like never before a danger of national withdrawal, or even nationalistic withdrawal. Populist responses bring into question the European Union's great successes: the euro, the single market, even the free movement of people.

I think we can safely say that the sovereign debt crisis is now first and foremost a political crisis of confidence. Our citizens, but also the outside world, are watching us and are asking themselves: Are we really a Union? Do we really have the will to support the single currency?

Are the most vulnerable Member States determined to implement essential reforms? Are the most prosperous Member States really committed to showing solidarity? Is Europe really able to achieve growth and create jobs?

I am telling you now: yes, this is a serious situation, but there are solutions to this crisis. Europe does have a future, provided we restore confidence. And to restore confidence, we need stability, growth, but also political will on the part of political leaders. We must work together to present our citizens with a European revival.

(Applause)

We now need to make a reality of what we concluded in the Berlin Declaration, signed by the Commission, Parliament and the European Council at the fiftieth anniversary of the signing of the Treaties of Rome – at the time, we said ...

‘Today we live together as was never possible before. We, the citizens of the European Union, have united for the better.’

President of the Commission. – (FR) ‘Today we live together, as never was possible before. We, the citizens of the European Union, have united for the better.’ This is a declaration, and the words count. We must live out this will in the courage of each day. With our institutions, and not against them, we can succeed. We know that some see the need for stability as paramount. For others, it is growth. I say to you: we need both. Some preach discipline, others solidarity. We need both. We can no longer have ad hoc or partial solutions. We must be determined in finding comprehensive solutions, we must have a greater ambition for Europe.

I really believe that we are currently at a turning point in our history, a time when, if we do not move forward with integration, we run the risk of fragmentation. Therefore, this is a matter of political will, an ‘ordeal by fire’ for our entire generation.

Yes, it is possible to end this crisis. Not only is it possible, but it is necessary. Herein lies political leadership: making possible that which is necessary.

(Applause)

Let me start with Greece. Greece is and will remain a member of the euro area.

(Applause)

Greece must implement its commitments in full and on time. In turn, the other euro area members have pledged to support Greece and each other. As stated at the Euro Area Summit on 21 July: ‘We are determined to continue to provide support to countries under programmes until they have regained market access, provided they successfully implement those programmes.’ That is why I created the Task Force for Greece. We have just launched an action plan based on two major pillars: around 100 viable and high-quality projects, investing in all Greek regions, to make the best use of Greece’s remaining allocation of the Structural Funds, and a major drive to reduce bureaucratic procedures for European co-funded projects. EUR 15 billion remain to be spent in Greece from the Structural Funds. This will support the Greek economy with an urgent programme of technical assistance to the Greek administration. A programme of EUR 500 million to guarantee European Investment Bank loans to Greek SMEs is already under way.

The Commission is also considering a wider guarantee mechanism to help banks start lending again to the real economy. All of this represents huge support for Greece’s fight-back

and Greece will have to deliver concrete results. It must break with counter-productive practices and resist vested interests. But we have to be clear about this. This is not a sprint, but a marathon.

The task of building a Union of Stability and Responsibility is not only about Greece. The economic outlook that we face is very difficult. We are confronted with the negative effects of an ongoing global reassessment of risks. It is therefore our responsibility to rebuild confidence and trust in the euro and our Union as a whole. We can do this by showing that we are able to take all the decisions needed to run a single currency and an integrated economy in a competitive, inclusive and resource-efficient way.

For this we need to act in the short, the medium and the long term. Let us start with the short term. The first step is to quickly fix the way we respond to the sovereign debt crisis. This will require stronger mechanisms for crisis resolution. We need credible firepower and effective firewalls for the euro. We have to build on the EFSF and the upcoming European Stability Mechanism. The EFSF must immediately be made both stronger and more flexible. This is what the Commission proposed already in January. This is what Heads of State or Government of the euro area agreed upon on 21 July. Only then, when you ratify this, will the EFSF be able to deploy precautionary intervention; to intervene to support the recapitalisation of banks and intervene in the secondary markets to help avoid contagion.

Once the EFSF is ratified, we should make the most efficient use of its financial envelope. The Commission is working on options to this end. Moreover we should do everything possible to accelerate the entry into force of the ESM. Naturally we trust that the European Central Bank – in full respect of the Treaty – will do whatever is necessary to ensure the integrity of the euro area and to ensure its financial stability.

But we cannot stop there. We must deepen economic coordination and integration, particularly in the euro area. This is at least as big a political task as an economic one.

Today, you will vote on the 'six-pack' proposals that we have put before you and the Council one year ago. This 'six pack' reforms the Stability and Growth Pact and widens surveillance to macroeconomic balances. We are now back very close to what the Commission originally put on the table. You have played a decisive role in keeping the level of ambition of these proposals, and I really want to thank you and congratulate you for that.

This legislation will give us much stronger enforcement mechanisms. We can now discuss Member States' budgetary plans before national decisions are taken. This mix of discipline and integration holds the key to the future of the euro area. Only with more integration and discipline can we have a really credible euro area.

These are indeed important steps forward, but we must go further. We need to complete our monetary union with an economic union. We need to achieve the tasks of Maastricht. It was an illusion to think that we could have a single currency and a single market with national approaches to economic and budgetary policy. Let us avoid another illusion that we can have a single currency and a single market with an intergovernmental approach.

(Applause)

For the euro area to be credible – and this is not only the message of the federalists, this is the message of the markets – we need a truly Community approach. We need to really integrate the euro area; we need to complete the monetary union with a real economic

union. And this truly Community approach can be built how? In the coming weeks, the Commission will build on the 'six pack' and present a proposal for a single, coherent framework to deepen economic coordination and integration, particularly in the euro area. This will be done in a way that ensures the compatibility between the euro area and the Union as a whole. Of course, we do not want the euro area to break the great *acquis* of the single market and all our four freedoms. At the same time, we can pool decision-making to enhance our competitiveness. This could be done by integrating the Euro Plus Pact into this framework, in full respect of the national implementation competences.

For all of this to work, we need more than ever the independent authority of the Commission to propose and assess actions that the Member States should take. Governments, let us be frank, cannot do this by themselves. Nor can this be done by negotiations between governments. Indeed, within the Community competences, the Commission is the economic government of the Union; we certainly do not need more institutions for this.

(Applause)

For the same reason the Treaties have created supranational institutions. For the same reason the European Commission, the European Central Bank, the Court of Justice of the European Union were created. The Commission is the guarantor of fairness. Moreover, the Commission, which naturally works in partnership with the Member States, is voted by and accountable to this House, the directly elected Parliament both of the euro area and of the European Union as a whole.

(Applause)

It is also time to have unified external representation of the euro area. In accordance with the Treaty the Commission will make proposals for this purpose. A Union of Stability and Responsibility built on this basis and with a common approach will also allow the Member States to seize fully the advantages of a bigger market for the issuance of sovereign debt. Once the euro area is fully equipped with the instruments necessary to ensure both integration and discipline, the issuance of joint debt will be seen as a natural and advantageous step for all, on condition that such eurobonds will be 'stability bonds', bonds that are designed in a way that rewards those who play by the rules and deters those who do not. As I already announced to this House, the Commission will present options for such 'stability bonds' in the coming weeks. Some of these options can be implemented within the current Treaty, whereas fully fledged eurobonds would require Treaty change. This is important because, we can do a lot within the existing Treaty of Lisbon. And there is no excuse for not doing it, and for not doing it now, but it may be necessary to consider further changes to the Treaty.

I am also thinking particularly of the constraint of unanimity. The pace of our joint endeavour cannot be dictated by the slowest. Today we have a Union where it is the slowest member that dictates the speed of all the other Member States. This is also not credible from the markets' point of view; this is why we need to solve this problem of decision-making. A Member State has of course the right not to accept decisions. That is a question, as they say, of national sovereignty, but a Member State does not have the right to block the moves of others; the others also have their national sovereignty and, if they want to go further, they should go further.

(Applause)

Our willingness to envisage Treaty change should not be a way or an excuse to delay the reforms that are necessary today, but I believe that this longer-term perspective will reinforce the credibility of our decisions now.

A Union of Stability and Responsibility means swiftly completing the work on a new system of regulation for the financial sector. We need well capitalised, responsible banks lending to the real economy. Much has been said about the alleged vulnerability of some of our banks. European banks have substantially strengthened their capital positions over the past year. They are now raising capital to fill the remaining gaps identified by the stress tests in summer. This is necessary to limit the damage of financial market turbulence on the real economy and on jobs.

Over the last three years, we have designed a new system of financial regulation. Let us remember, we have already tabled 29 pieces of legislation. You have already adopted several of them, including the creation of independent supervising authorities, which are already working. Now it is important to approve our proposals for new rules on derivatives, naked short selling and credit default swaps, fair remuneration for bankers. These propositions are there; they should be adopted by the Council and by Parliament.

The Commission will deliver the remaining proposals by the end of this year, namely rules on credit rating agencies, bank resolution and personal responsibility of financial operatives. So we will be the first constituency in the G20 to have delivered on our commitment to global efforts for financial regulation.

In the last three years, Member States – I should say taxpayers – have granted aid and provided guarantees of EUR 4.6 trillion to the financial sector. It is time for the financial sector to make a contribution back to society.

(Applause)

That is why I am very proud to say that today the Commission adopted a proposal for the Financial Transaction Tax.

(Applause)

Today I am putting before you a very important text that if implemented may generate revenue of about EUR 55 billion per year. Some people will ask 'Why?'. Why? It is a question of fairness. If our farmers, if our workers, if all the sectors of the economy, from industry to agriculture to services, pay a contribution to society, the banking sector should also give a contribution to society.

(Applause)

And if we need – because we need – fiscal consolidation, if we need more revenues, the question is where these revenues are coming from. Are we going to tax labour more? Are we going to tax consumption more? I think it is fair to tax financial activities that in some of our Member States do not pay the proportionate contribution to society.

But it is not only financial institutions who should pay a fair share. We cannot afford to turn a blind eye to tax evasion. So it is time to adopt our proposals on savings tax within the European Union, and I call on the Member States to finally give the Commission the mandate we have asked for to negotiate tax agreements for the whole European Union with third countries.

Stability and responsibility are not enough on their own. We need stability, but we also need growth. We need responsibility, but we also need solidarity. The common economy can only remain strong if it delivers growth and jobs. That is why we must unleash the energy of our economy, especially the real economy.

The forecasts today point to a strong slowdown, but significant growth in Europe is not an impossible dream. It will not come magically tomorrow, but we can create the conditions for growth to resume. We have done it before. We must and we can do it again.

It is true that we do not have much room for a new fiscal stimulus. But that does not mean that we cannot do more to promote growth. First, those who have fiscal space available must explore it – but in a sustainable way. Second, all Member States need to promote structural reforms so that we can increase our competitiveness in the world and promote growth. Together, we can and must tap the potential of the Single Market, exploit all the benefits of trade and mobilise investment at European level.

Let me start with the Single Market. Full implementation of the Services Directive alone could, according to our estimates, deliver up to EUR 140 billion in economic gains, but today, two years after the deadline for implementation, several Member States have still not adopted the necessary laws so we are not benefiting from all the possible gains from having a true services liberalisation in Europe. But we can also do more. We must adopt what is on the table. We have adopted the Single Market Act in the European Commission. A number of key initiatives are ready. We are close to having a European patent which would cut the cost of protection to 20% of current costs. I expect this to be concluded by the end of this year.

Moreover, for the Single Market Act, we should consider a fast-track legislative procedure. By the way, in many areas we should follow a fast-track legislative procedure because we are living in real emergency times. This will allow us to respond to these extraordinary circumstances. Growth in the future will depend more and more on harnessing information technology. We need a digital single market, which will benefit each and every European by around EUR 1 500 per year by using the possibilities of e-commerce to end for instance mobile roaming charges. An extra 10% in broadband penetration would bring us between 1 and 1.5% of extra annual growth.

In a competitive world we must be also well-educated, with skills to face these new challenges. We must innovate and we must act in a sustainable way. We have already presented detailed proposals on innovation, resource-efficiency and how we can strengthen our industrial base. Modern industrial policy is about investing in research and innovation. We need to accelerate the adoption of our efforts to boost the use of venture capital to fund young, innovative companies across Europe.

Sustainable jobs will come if we focus on innovation and new technologies, including green technologies. We must see that 'green' and growth go together. For example, the renewables sector has already created 300 000 jobs in the past five years in the European Union. The global green technology market will triple over the next decade.

We must focus our action on where it makes a real impact. Growth in the future means we must actively pursue also our smart regulation agenda, which will give a saving of EUR 38 billion for European companies, particularly for SMEs, but Member States must also do their part in reducing the administrative burden. But we also need investment. These reforms are important, but we also need some kind of investment at European level.

A Union of Growth and Solidarity needs modern, interconnected infrastructures. We have proposed for the next MFF (Multiannual Financial Framework) to create a facility to connect Europe – in energy, in transport, in digital. This innovative part of our MFF proposal has to be seen together with another very important innovative idea: the project bond. In the coming weeks the Commission will publish its proposals for EU project bonds. We are also proposing pilot projects, so that we can frontload growth. We can do it even before the MFF is adopted. In this way we can frontload some of the major infrastructure investments Europe needs.

The Union and its Member States should urgently consider how to allow our own policy-driven bank, the European Investment Bank, to do more – possibly much more – to finance long-term investment. To do so, we need to explore ways to reinforce the EIB's resources and capital base so that it can lend to the real economy.

In the year 2000 there was EUR 22 billion of venture capital in Europe. In 2010 there was only 3 billion. If we want to promote entrepreneurship we must reverse this decline and we need that support namely for SMEs.

We can also get more growth out of the Structural Funds, by increasing absorption capacity, using the Structural Funds to support macroeconomic performance. They are essential for innovation, for training, employment, and for SMEs.

I would also like to urge this House to adopt by the end of the year the proposals we made in August to increase cofinancing rates to those countries with assistance programmes. This will inject essential funding into these economies, while reducing pressure on national budgets.

Reforms to our labour markets, public finances and pension systems require a major effort from all parts of society. We all know these changes are necessary, so that we can reform our social market economy and keep our social model, but it is imperative that we hold on to our values – the values of fairness, of inclusiveness and of solidarity.

Right now we need to give concrete hope to the one in five of our young people who cannot find work. In some countries, the situation of our young people is dramatic. I want to call on companies to make a special effort to provide internships and apprenticeships for young people. These can be supported by the European Social Fund. By getting businesses, the social partners, national authorities and the European Union level involved in a Young Opportunities Initiative, we can make a difference. This I believe is the most urgent social matter: to respond to the anxiety of our young people who cannot find a job. It is much better to have an apprenticeship, a traineeship, than to take their anxieties onto the streets expressing their lack of confidence in the Union as a whole.

(Applause)

We must accelerate the most urgent parts of our Growth and Jobs Plan, Europe 2020. The Commission will focus on the situation of young people in each and every Member State in its country-specific recommendations for next year. I believe we must give our future a real chance. But right now we also need to act to help the 80 million Europeans at risk of poverty. This means that the Council must finally approve our proposal to safeguard the programme for the supply of food for the most deprived persons.

(Applause)

I would like to thank this Parliament for the political support it has given to our proposed solution.

Fifty years ago, 12 countries in Europe came together to sign the Social Charter. To be precise, it was in October 50 years ago. Today, the Charter has 47 signatories, including all our Member States. To guarantee these fundamental values in Europe, I believe we need to boost the quality of social dialogue at European level. The renewal of Europe can only succeed with the input and the ownership of all the social partners – of trade unions, of workers, of business, civil society in general.

We should remember that our Europe is a Europe of citizens. As citizens, we all gain through Europe. We gain a European identity and citizenship apart from our national citizenship. European citizenship adds a set of rights and opportunities – the opportunity to freely cross borders, to study, to work abroad. Here again, we must all stand up and preserve and develop these rights and opportunities, just as the Commission is doing now with our proposals on Schengen. We will not tolerate a rolling-back of our citizens' rights. We will defend the freedom of movement and all the freedoms in our Union.

(Applause)

President of the Commission. – (FR) Honourable Members, the Commission works in many other areas, as you are aware.

I cannot mention them all here, but you can find them in the letter that I sent to the President of the European Parliament and that you will have all received. Nonetheless, before concluding, let me talk about the European Union's external responsibility. I want an open Europe, a Europe that is involved in the world. European action in the world is not only the best guarantee for our citizens, for defending our interests and values, but it is also much-needed in the world.

These days it is trendy to talk about the G2. I think that the world does not want a G2. Even the two in question would not find it beneficial to have a G2. We know that a bipolar world brought about tension during the cold war. I believe that Europe is more than ever indispensable, if we want a just and open world. I believe the changing world we are living in needs a Europe that assumes its responsibilities. An influential Europe, a Europe of 27, and soon with Croatia's accession, a Europe of 28. A Europe that continues to lead the way, whether in terms of trade or climate change, at a time when we are coming up to major events: from Durban to Rio+20. Europe must hold on to its leadership on these matters.

Let us also turn our eyes and our attention to our southern neighbours. The Arab spring represents a deep transformation that will have far-reaching consequences, not only for the people in those countries, but also for us, for our Europe. That is why Europe should be proud. We were the first to stand alongside the Tunisians, Egyptians and Libyans who wanted democracy and freedom. That is why Europe supports these legitimate aspirations, particularly through our partnership for democracy and for prosperity. The Arab spring, I hope, also opens the door to the hope of peace for the whole region, to the idea of a Palestinian State that must live in peace with the State of Israel, which is what Europe would like to see.

(Applause)

Let us also turn our eyes and our attention to our eastern neighbours. This Friday I will be attending the Eastern Partnership Summit in Warsaw. I shall go there with the following ambition: closer political relations and closer economic integration between us and our partners in the region. The European Union has an extraordinary power of transformation and inspiration for many around the world. Furthermore, if these countries undertake deeper reforms, we can help them and involve them in a closer way, from a political point of view, and we can also achieve closer integration with them from an economic point of view.

Finally, let us not abandon the poorest of the poor and let us live up to our commitments to reach the Millennium Development Goals. Let us also be realistic and let us recognise that, for Europe to be fully influential, for Europe to be a real power, we need to strengthen the common foreign and security policy. It must be credible. It must be based on a common dimension for security and defence, if we really want to count in the world. Gone is the time when some people were able to argue that the idea of European defence could harm the Atlantic Alliance.

You are already aware: at present, it is the Americans themselves who are asking us to do more as Europeans. The world has changed, the world is changing in a fundamental way. Do we really want to count in the world? That is why, at a time when defence budgets are under pressure, we need to do more together, with the resources that we have. In this respect, the Commission is taking its share of responsibility by continuing the efforts towards a single market in the area of defence and by drawing on the competences granted by the Treaty in order to develop a European industrial base for defence. Honourable Members, let us not be naive, the world is transforming, and if Europe wants to count in the world and defend the interests of its citizens, if it wants to count and influence the world's future, it needs a political dimension and a defence dimension.

Honourable Members, I shall conclude. At the end of our mandate, the mandate of this Parliament, in 2014, it will be exactly one century that the Great War broke out on this continent, a dark period followed by the Second World War, one of the most tragic pages of European and world history. Today, I think that we can safely say that such horrors are unthinkable in Europe. To a large extent, this is the case because we have the European Union. Because, thanks to the European vision and thanks to economic and political integration, we have succeeded in ensuring peace on our continent.

(Applause)

That is why we cannot let this great achievement be endangered. We have received it from the previous generations. Our generation will not be the one to undermine it. Let us be clear: if we start to fragment Europe, if we start to go back on ourselves, on Europe's great successes, our objective will undoubtedly run the risk of fragmentation. As I have said, at the root of the crisis we are currently experiencing, there is a political problem. It is our will to live together that is being tested. That is why we must take the European Union to a deeper level. That is why we have built common institutions. That is why we must protect European interest. And today's reality is that intergovernmental cooperation is not enough to get Europe out of this crisis, to provide Europe with a future. On the contrary, I have to tell you quite frankly: a certain amount of intergovernmentalism could well lead to renationalisation, to fragmentation. A certain amount of intergovernmentalism could well sign the death warrant of a united Europe, as we would want it.

(Applause)

Let us not forget that the decisions we take or do not take today will impact on our future. There is one thing that I would like to admit to you: I feel really offended when I see some people, elsewhere in the world, telling us Europeans, with a fair amount of paternalism, what we need to do. I honestly believe that, while we have problems, very serious problems, we do not have to apologise for our democracy. We do not have to apologise for our social market economy. Therefore I think that we need to claim from our institutions, but also from our Member States, in Paris, Berlin, Athens, Lisbon, Dublin, a burst of pride about being European, a burst of dignity. We should answer our partners like this: 'Thank you for your advice, but we are capable of working together. We are capable of overcoming this crisis.' I want this pride in being European.

(Applause)

And the pride in being European is not only being proud of our great culture, our great civilisation, everything that we have given to the world; it is not being proud of our past only, but also of our future. It is that trust that we need to recreate between us. I believe that it is possible. Some say: 'It is very difficult, it is not possible'. In response, I would like to quote a great man, a great African, Nelson Mandela: 'It always seems impossible, until it is done. Let's do it.' We can do it, we can do it with confidence, we can achieve the revival of our Europe.

(Applause)

Joseph Daul, *on behalf of the PPE Group*. – (FR) Mr Barroso, it is heart-warming to hear such a speech. Like you, I may give an analysis, but after this speech, we will act together.

Europe is going through a confidence crisis and a growth crisis. As if that was not enough, it is going through a leadership crisis.

It is high time that Europe came up with a political answer to the crisis. A united and strong answer, which puts politics in its rightful place, that is to say in the driving seat; I am talking to the Council.

Because, after all, what are we talking about? We are talking about a currency – the euro – created 10 years ago. We truly believe that we are giving ourselves the means to secure its governance. We talk about countries which, for decades, have lived above their means, always more, without wondering whether or not the money spent actually created growth and jobs. We talk about a Europe born to prevent internal conflicts and to ensure its peoples' prosperity, a Europe that, until now, has succeeded on all these fronts. But we also talk about a Europe that is misunderstood, even criticised, because its leaders have not been able to explain why the choice of Europe is the only choice for the future and why the answer to global challenges can only be a European one.

All too often, one forgets that the European Union is one of the most advanced and developed regions. It is the world's leading power in terms of trade. Our duty is above all to make sure that it remains in that position. What is the problem, then? And how can it be solved? The problem is that, even though economists agree on the reasons behind the financial and economic crisis, and on how to respond to it – namely a mix of rigour and incentives for creating wealth and employment – the political class has not had the courage to set about the task.

The reforms proposed these last few months by the Member States of the Union and of the euro area, in particular, are along the right lines. However, they are clearly insufficient,