

“Poland and the future of the European Union”

Mr Radek Sikorski, Foreign Minister of Poland

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Mr President, Minister – dear Guido, Ladies and Gentlemen,

Let me start with a story.

20 years ago, in 1991, I was a reporter, visiting what was then the Federal Republic of Yugoslavia. I was interviewing the chairman of the Republican Bank of Croatia when he received a phone call with an obscure piece of news. Namely, that the parliament of another Yugoslav republic, Serbia, had just voted to print unauthorized amounts of dinars, the common currency.

Putting down the phone the banker said: *“This is the end of Yugoslavia.”*

He was right. Yugoslavia collapsed. So did the ‘Dinar zone’. We know what followed. Issues of money can be issues of war and peace, the life and death of federations.

Today Croatia, Serbia and FYROM each have their own currency.

Montenegro and Kosovo are not in the Euro zone but simply use the Euro. Bosnia and Herzegovina even has the ‘Convertible Mark’, pegged to the Euro.

A striking story. Not of European integration. Of European disintegration.

Disintegration with appalling human cost. Only now is the region slowly moving back to the European mainstream.

The fate of Yugoslavia reminds us that money, as well as being a technical device, a ‘means of exchange’, symbolises unity – or disunity.

Why is this? Money exists because communities exist. A community in which people live and trade – they *exchange* freely – creates value. Their money symbolises that value.

This moral significance of money intrigued Immanuel Kant, who wrote that the entire practice of lending money presupposed at least the honest intention to repay. If this condition were universally ignored, the very idea of lending and sharing wealth would be undermined.

For Kant, honesty and responsibility were categorical imperatives: the foundation of any moral order. For the European Union, likewise, these are the cornerstones. I would point to the two fundamental values: Responsibility and Solidarity. Our responsibility for decisions and processes. And Solidarity when it comes to bearing the burdens.

Today, as the first Polish Presidency is drawing to a close, I will tackle basic questions:

How did we get into this crisis?

Where do we go from here?

How to get there?

What does Poland bring?

What do we ask of Germany?

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First question: how has the Euro zone got into its current difficulties?

Let me first say what this crisis is not about. It was not caused – as some have suggested – by enlargement.

Enlargement has created growth and wealth all over Europe.

The EU15 exports to the EU10 countries rose almost twofold in the last ten years. It's even more striking if you break it down by countries. Britain's export to the 10 countries that joined after 2004 rose from €2.2 bln in 1993 to €10 bln last year; France's, from €2.7 bln to €16 bln, Germany's, wait for this – from €15bln to 95 billion Euros. The total volume of trade between EU15 and EU10 amounted to €222 bln last year, up from €51 bln in 1995. A tidy sum. I guess it sustains a job or two in Old Europe.

So, enlargement – far from causing the crisis, has arguably delayed the economic turmoil. Thanks to the advantages of trading in an enlarged market, West European welfare states have been forced to face reality only now.

If the upheaval is not about enlargement, then perhaps it is a currency crisis?

Not exactly. The Euro is doing fine versus the dollar and other currencies.

It is of course partly about debt, the need to deleverage our economies from the crazy heights caused by government overspending, accounting chicanery and irresponsible financial engineering. And the deleveraging is occurring beyond the Euro zone: look at the UK with its debt of 80% of GDP and the US, with 100%.

But if it were only a question of debt, you would expect ratings and spreads to be affecting countries in proportion to their indebtedness. But, very strikingly, this is not the case. Some countries, such as the UK and Japan, with high debt in proportion to GDP, pay low premiums. Others, with lower debt – like Spain, pay high ones.

The inevitable conclusion is that this crisis is not only about debt, but primarily about confidence and, more precisely, credibility. About investor perception where their funds are safe.

Let us be honest with ourselves and admit that markets have every right to doubt the credibility of the Euro zone. After all, the Stability and Growth Pack has been broken 60 times!¹ And not just by smaller countries in difficulty, but by its founders in the very core of the Euro zone.

If credibility is the problem, then restoring credibility is the answer.

Institutions, procedures, sanctions that will convince investors that countries will be capable of living within their means. Hence, that the bonds they buy will be repaid, preferably with honest interest.

Second question: where do we want to go?

¹ http://www.monstersandcritics.com/news/europe/news/article_1675056.php/LEAD-Merkel-affirms-demand-for-financial-transaction-tax

We have two fundamental options. Before I say what they are, let me say that Euro zone's failings are not the exception but, rather, are typical of the way we have constructed the EU. We have a Europe with a dominant currency but no single Treasury to enforce it. We have joint borders without a common migration policy. We are supposed to have a common foreign policy, but it is divorced from real instruments of power and often weakened by member states cutting their own deals. I could go on.

Most of our institutions and procedures depend on the goodwill and sense of propriety of member states. It works tolerably well when the going is good. But then a wave of migrants shows up on the EU's border, or a civil war blows up in our neighborhood, or markets panic. And then, what do we habitually do? We run for cover in the familiar framework of the nation state.

The Euro zone crisis is a more dramatic manifestation of the European malaise because its founders created a system in which each of its members has the capacity to bring it down, with appalling costs to themselves and the entire neighborhood.

The break up would be a crisis of apocalyptic proportions beyond our financial system. Once the logic of 'each man for himself' takes hold, can we really trust everyone to act communitarian and resist the temptation to settle scores in other areas, such as trade? Would you really bet the house on the proposition that if the Euro zone breaks up, the single market, the cornerstone of the European Union, will definitely survive? After all, messy divorces are more frequent than amicable ones. I have heard of a case in California in which a couple spent \$100,000 disputing custody of the family cat.

If we are not willing to risk a partial dismantling of the EU, then the choice becomes as stark as can be in the lives of federations: deeper integration, or collapse.

We are not unique in facing the fundamental question of the future of our federation over the issue of debt. Two successful federations tread this way before us. Americans passed the point of no return in creating the United States when the federal government assumed responsibility for debts that states incurred in the War of Independence. Solvent Virginia bargained with more indebted Massachusetts, which is why the capital was fixed on the banks of the Potomac. Alexander Hamilton fathered a compromise under which everybody's debts were jointly guaranteed and a revenue stream created to service them.

Switzerland also became a real federation when rules were established for incurring debt and transfers between her richer and poorer cantons.

So, we also have to decide whether we want to become a proper federation, or not. If renationalization or collapse is unacceptable, then only one way remains: making Europe, as Europe, governable at last, and hence – in due course – more credible.

Politics is often the balancing between the urgent and the important.

What's urgent is that we save the Euro zone. What's important is that in so doing we preserve Europe as a democracy that respects the autonomy of its member states. This new European deal will need to balance Responsibility, Solidarity and Democracy as the cornerstones of our political union.

Question three: how to get there?

The so-called "six pack" which the Polish presidency helped to negotiate was a good beginning, a bundle of five regulations and one directive that bring more transparency and discipline to the finances of member states. In the process of drawing up national budgets, finance ministers of member states will now have to show their books to their peers and to the Commission very early, even before national parliaments. The Commission will recommend corrective action when a member state's macroeconomic position shows imbalances. Members of the Euro zone who break the Stability and Growth Pact will be subject to sanctions that are almost impossible to block by political pressure. Moreover, the 'six pack' confirms that rules may be introduced not as directives – which require enactment into national laws – but as regulations, which apply universally and instantly.

More ambitious measures have been proposed. In order to strengthen economic convergence the Commission and the Euro group would get the right to scrutinize in advance all major economic reform plans with potential spill-over effect in the euro area, impose sanctions on countries failing to effect policy recommendations, and permission for groups of countries to synchronize their labour, pensions and social policies.

Financial discipline would be strengthened by giving access to rescue funds only to members abiding by macro fiscal rules, by making sanctions automatic and giving the Commission, the Council and the Court of Justice powers to enforce the 3% ceiling on

deficit and 60% ceiling on debt. Countries in excess deficit procedure would have to present their national budgets for approval by the Commission. The Commission would get powers to intervene in the policies of countries that could not fulfil their obligations. Countries persistently violating rules would have their voting rights suspended.

Provided the European Council sets tough new rules in stone, the European Central Bank should become a proper central bank, a lender of last resort that underpins the credibility to the entire Euro zone. The ECB needs to act soon, in anticipation of irreversible legal enactments.

This would avert disaster but more is needed. Poland has all along supported the idea of a new treaty that would make the EU more effective.

The European Commission needs to be stronger. If it is to play the role of an economic supervisor we need commissioners to be genuine leaders, with authority, personality – dare I say charisma – to be true representatives of common European interests. To be more effective, the Commission should be smaller. Any one of us who has chaired a meeting knows that they are most productive when up to a dozen people participate. The EC now has 27 members. Member States should rotate to have their commissioner.

The more power we give to European institutions, the more democratic legitimacy they need to have. The draconian powers to supervise national budgets should be wielded only by agreement of the European Parliament.

The Parliament needs to stand up for its role and tasks. Euro-sceptics are right when they say that Europe will only work if it becomes a polity, a community in which people place a part of their identity and loyalty. *Italy is made, we still have to make Italians*, Massimo D’Azeglio said in the first meeting of the parliament of the newly united Italian kingdom in 19th century. For us in the EU it’s easier: we have a united Europe. We have Europeans. What we need to do is to give political expression to the European public opinion. To help it along we could elect some seats in the European Parliament from a pan-European list of candidates. We need more "politische bildung" for citizens and political elite. The parliament should have its seat in a single location.

We could also combine the posts of the President of the European Council and that of the European Commission. Chancellor Angela Merkel has even suggested that he or she should be elected directly by the European demos.

What is crucial is that we maintain coherence between the Euro area and the EU as a whole. Community institutions must remain central. As the Presidency, we are guardians of our unity. And the unity must not be hypothetical. In this case: it's not enough to say that countries may participate once they join the Euro zone. Instead of organising separate Euro summits or exclusive meetings of finance ministers we can continue the practice from other EU fora where all may attend, but only members vote.

The more power and legitimacy we give to federal institutions, the more secure member states should feel that certain prerogatives, everything to do with national identity, culture, religion, lifestyle, public morals, and rates of income, corporate and VAT taxes, should forever remain in the purview of states. Our unity can survive different working hours or different family law in different countries.

Which brings me to the issue of whether an important member, Britain, can support reform. You have given the Union its common language. The Single Market was largely your brilliant idea. A British commissioner runs our diplomacy. You could lead Europe on defence. You are an indispensable link across the Atlantic. On the other hand, Euro zone's collapse would hugely harm your economy. Also, your total sovereign, corporate and household debt exceeds 400% of GDP. Are you sure markets will always favour you? We would prefer you in, but if you can't join, please allow us to forge ahead. And please start explaining to your people that European decisions are not Brussels' diktats but results of agreements in which you freely participate.

Fourth question: what does Poland bring?

Today Poland is not the source of problems but a source of European solutions. We now have both the capacity, and the will, to contribute. We bring a recent experience of a successful transformation from dictatorship to democracy and from an economic basket case to an increasingly prosperous market economy.

We were helped by friends and allies: United States, UK, France and, above all, Germany. We appreciate the strong and generous support – the solidarity – which Germany has extended to us over the last two decades. *Ich danke Ihnen als Politiker und als Pole.*

I hope you appreciate that it's been a good investment. In 2010 German exports to Poland have exceeded 1990 levels nine fold, and they are growing despite the crisis.²

² Source: Central Statistical Office of Poland:

Germany's trade with Poland is bigger than with the Russian Federation, although you would not always know it from the German political discourse.

From last year Poland is ranked as a highly developed country in the Human Development Index. Between 2007 and 2011 we went up 10 positions in the Global Competitiveness Index.³ In the same period we improved our standing by 20 positions in the Corruption perception Index.⁴, ahead of some Eurozone members.

In the last four years, the accumulated GDP growth in Poland amounted to 15,4 per cent. The second result in the EU, with 8 percent? Yes, a member of the Euro zone - Slovakia. The EU average is minus 0,4 per cent. To those who would like to divide Europe, I say: how about a natural division into growth-Europe and non-growth Europe? But be forewarned. Their shapes would not conform to stereotypes.

It did not happen by itself. Successive Polish governments took painful decisions and the Polish people made big sacrifices. Privatisation, pension reform, opening our country to globalisation produced losers as well as winners. We were one of the first countries to introduce a public debt anchor in our constitution.

And we are not resting on our laurels. Presenting his new government to parliament a fortnight ago, Prime Minister Donald Tusk said that: *to go safely through the year 2012, to improve our of financial security for years and decades to come, we shall have to take measures that call for sacrifice and understanding of everyone, without exception.*

Next year alone we intend to cut our budget deficit to 3% of GDP and the overall debt to 52% of GDP. By 2015 the deficit will be brought down to 1% of GDP and public debt to 47%. The retirement age will be lifted to 67 years for both genders. Pension privileges for soldiers, policemen and priests will be cut. The disability pension contribution will increase by 2%. Child-benefits will be taken from the rich and given to the poor.

By the end of this parliament, Poland will fulfil the criteria of membership in the Euro zone. That's because we want the Euro zone to survive and flourish. And we plan to be in it. By approving our Accession Treaty, the people of Poland have given us the authority to join as soon as the Euro zone and we are ready.

Poland also brings Europe a willingness to make compromises - even to pool sovereignty with others - in return for a fair role in a stronger Europe.

³ Source: World Economic Forum: http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf

⁴ Source: Transparency International: http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results

Fifth question: What does Poland ask of Germany?

We ask, first of all, that Germany admits that she is the biggest beneficiary of the current arrangements and therefore that she has the biggest obligation to make them sustainable.

Second, as you know best, you are not an innocent victim of others' profligacy. You, who should have known better, have also broken the Growth and Stability Pact and your banks also recklessly bought risky bonds.

Third, because investors have been selling the bonds of exposed countries and flying to safety, your borrowing costs have been lower than they would have been in normal times.

Fourth, if your neighbours' economies stall or implode, you greatly suffer, too.

Fifth, that despite your understandable aversion to inflation, you appreciate that the danger of collapse is now a much bigger threat.

Sixth, that because of your size and your history you have a special responsibility to preserve peace and democracy on the continent. Jurgen Habermas has wisely said that "If the European project fails, then there is the question of how long it will take to reach the status quo again. Remember the German Revolution of 1848: When it failed, it took us 100 years to regain the same level of democracy as before."

What, as Poland's foreign minister, do I regard as the biggest threat to the security and prosperity of Poland today, on 28th November 2011? It's not terrorism, it's not the Taliban, and it's certainly not German tanks. It's not even Russian missiles which President Medvedev has just threatened to deploy on the EU's border. The biggest threat to the security and prosperity of Poland would be the collapse of the Euro zone.

And I demand of Germany that, for your own sake and for ours, you help it survive and prosper. You know full well that nobody else can do it. I will probably be first Polish foreign minister in history to say so, but here it is: *I fear German power less than I am beginning to fear German inactivity.*

You have become Europe's indispensable nation.

You may not fail to lead. Not dominate, but to lead in reform.

Provided you include us in decision-making, Poland will support you.

Dangers of 'just after time' reform

I started with a story of one experiment in political union, communist Yugoslavia.

Let me end with another: Europe's least-known federation, the common state between Poland and the Grand Duchy of Lithuania which began in 1385 and lasted for over four centuries. Which is to say, longer, so far, than federations such as the United States, United Kingdom or Bundesrepublik Deutschland, to say nothing of the EU.

It was a Commonwealth which, like the EU, raised the standards of its time. It had a joint parliament and an elected head of state. Its political nation – those entitled to vote – comprised 10% of the population – the height of inclusiveness at the time. Religiously tolerant, it saved its people from the horrors of the Thirty Years' War. Cities were founded on the Magdeburg law, many of them – like my home city of Bydgoszcz - by German settlers. Jews, Armenians and dissenters of all kinds from all over Europe voted with their feet to seek their fortunes there.

Liberty went hand in hand with military prowess. At Grunwald in 1410 its troops crushed the Teutonic Knights, whose heraldry lives on in the symbols of the German military. In 1683, at the gates of Vienna, we prevented the Ottoman Empire from uniting Europe under the banner of Islam.

And then, at the turn of 17th and 18th centuries, something changed. Elected kings, separate armies and currencies – couldn't compete with unified, mercantilist, authoritarian nation states. The Commonwealth's most democratic feature – the deputy of a single province could block legislation – became its biggest vulnerability. The principle of unanimity – admirable in a federal state – proved open to irresponsibility and corruption.

Poland eventually reformed itself. Our 3rd May Constitution of 1791 abolished unanimity, unified the state and created a permanent government. But reform came too late. We lost the war to defend the Constitution and in 1795 Poland was partitioned for over a century.

Moral of the story? When the world is shifting and new competitors arise, standing still is not sufficient. Institutions and procedures that have worked in the past are not enough. Incremental change is not enough. You have to adapt **fast enough** even to retain your position.

I believe we have the duty to save our great union from the fate of Yugoslavia, or the old Polish Commonwealth.

Conclusion

There is nothing inevitable about our decline. Provided we overcome our current malaise, we have sources of excellence and of strength that are the envy of the world.

We are not only by far the world's biggest economy but the largest area of peace, democracy and human rights. Peoples in our neighborhood – both East and South – look to us for inspiration. If we get our act together we can become a proper superpower. In an equal partnership with the United States, we can preserve the power, prosperity and leadership of the West.

But we are standing on the edge of a precipice. This is the scariest moment of my ministerial life but therefore also the most sublime. Future generations will judge us by what we do, or fail to do. Whether we lay the foundations for decades of greatness, or shirk our responsibility and acquiesce in decline.

As a Pole and a European, here in Berlin, I say: the time to act is now.