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'Democratic oversight for Europe's evolving economic governance: the role of national parliaments'

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Ladies and gentlemen

I am delighted to be with you here today!

Denmark has taken over the EU Presidency at a time of unprecedented concern about the future of the euro, and of the EU itself, and with public faith in our institutions – national and European – at an all-time low.

It is vital therefore that we are seen to act, and to act decisively and effectively, to combat the economic and financial crisis that has ravaged the European economy and affected the jobs and welfare of millions of Europeans.

The Economic and Monetary Union with the euro as the currency of the European Union must be at the heart of this action. As the EU's prime political project and the foundation of economic stability in Europe, it is inconceivable that the single currency will fail. But it is also clear that the financial and economic crisis has revealed a number of systemic shortcomings in the euro governance system that must be addressed urgently to ensure that this nightmare scenario does not occur.

I'm talking about more than simply papering over the cracks; what we need – and what the EU, led by the Commission, has been working towards steadily since the start of the crisis in 2007 – is a governance structure to sustain the EMU and at the same time bolstering its defences against a repeat of the current crisis.

However, of course, we have first to ensure that the EMU– can survive the current crisis, and we have taken rapid and decisive action to ensure that this is the case. Governments committed substantial funds to boost trust in the financial sector and to get money flowing back into the economy.

At EU level, the European Economic Recovery Plan was adopted, helping Member States to better design measures to boost their economies. And the most pressing case – the need to support Greece – was addressed through an emergency loan facility and the creation of the European Financial Stability Facility and the European Financial Stabilisation Mechanism in order to provide necessary lending to countries that are cut off from financial markets.

Let's be under no illusions – we were on the verge of the biggest meltdown of the financial sector for a generation and the worst depression since the 1930s. But the EU's decisive, collective action is pulling us back from the brink.

There are critics who suggest that our action is mere fire-fighting and has not addressed the fundamental problems at the source of the blaze. It will come as no surprise to you that I cannot agree with this assessment. While we had to tackle the immediate problems, our long-term vision was always clear – a completely new system of economic governance.

The fundamental lesson of the crisis is that of interdependence: now more than ever, we need greater integration to ensure that national economic and budgetary policies cannot again have such a devastating effect on the euro area and the EU as a whole. This is a view shared by the vast majority of Member States, and I am convinced that we need a more collective approach to economic governance that allows each Member State to set its own priorities without destabilising the rest of the EU.

The crisis has made it clear that we needed to act decisively in three key areas: the financial sector, economic growth and public finances.

Addressing the problems of the financial sector was the most urgent, as it was here that the crisis was created, and we have acted decisively to overhaul financial regulation and supervision without constraining the credit markets and jeopardising recovery. The most fundamental change is the creation of a new supervisory structure, comprising three EU authorities with binding powers over the EU's financial sector, and the creation of a European Systemic Risk Board.

As for economic growth, the need here was to ensure both a rapid recovery and sustainable long-term development across the EU. This will be achieved using a combination of measures: the Europe 2020 Strategy will focus on country-specific reforms of fiscal, structural and labour market policies that will allow the EU to maximise its potential on the global stage. The new European Semester will allow the implementation of the Europe 2020 strategy to be more closely monitored on a yearly basis, allowing for better coordination of national and EU growth-enhancing measures.

The Commission's Annual Growth Survey - focusing on macro-economic and fiscal policy, structural reforms and growth-enhancing measures - now offers a clear assessment of the EU's economic situation and guidance for further priority actions to be delivered at both EU and national levels. On the basis of this, each Member State draws up a serious of reform proposals for achieving the Europe 2020 goals, which inform each country's national budget proposals following assessment by the Commission and adoption by Council. Thus each Member State's budget priorities remain consistent with the EU's overall growth agenda.

The final area where we have taken decisive action is that of public finances, where the Commission put forward the so-called 'six pack' of legislation. The six pack consists of five regulations and one directive that together represents the most comprehensive reinforcement of economic governance in the EU since the launch of the Economic and Monetary Union. It is a clear sign of the urgent need for reform in this area that the entire package was agreed very quickly late last year by Parliament and Council, and came into force this year.

The chief role of the "six pack" is to give the EU a much stronger framework for preventing the economic mistakes that have thrown us into such unprecedented turmoil over the last few years.

Let me briefly describe the main innovations.

First, we will be able to scrutinise Member States' public finances, in particular the level of debt and deficit, much more thoroughly than before and, crucially, at a far earlier stage in the budget development process. National budgets will also have to be designed and presented in compliance with minimum international quality standards, so that budget-making is more transparent both for citizens and for policy-makers.

We have learned important lessons by looking at the root causes of the current sovereign debt crisis, and the spotlight will therefore be tightly focused on countries whose budget policies put their own and Europe's stability, growth and employment levels at risk. In particular, a reorientation of the Excessive Deficits Procedure (EDP) will ensure that public debt will be kept under far tighter control in the future.

Second, the "six pack" allows the Commission to examine in much greater depth the macroeconomic situation in each country. We will be paying particular attention to countries where there are early signs of possible macroeconomic imbalances that could undermine competitiveness and threaten economic and financial stability.

So, for example, when we detect symptoms of a property bubble, or weaknesses in the banking sector, or unbalanced patterns of trade and investment, we can act early to help solve the problem at the national level, rather than later when it has become a problem for the whole of Europe.

Third, the new rules also allow the Commission to take action against countries that do not respect their obligations. For euro area countries, the Commission will be able to enforce rules more strongly by proposing financial penalties at an earlier stage than before. These will be imposed automatically unless a majority of euro area Member States reject the Commission's recommendation.

And, finally, all of this will happen in a way that is dramatically more democratic and transparent– a huge step towards greater accountability.

While I am convinced that the "six pack" is the best possible response from Europe to the crisis, it is just the start. Two other proposals from the Commission – a two pack, if you will – are designed to build on the agreement over the "six pack" and further strengthen economic governance in the euro area.

The first proposal establishes enhanced surveillance of those Member States considered being at the greatest risk with regard to financial stability or receiving precautionary financial assistance, in particular setting out a clear procedure for preparing and adopting macro-economic adjustment programmes and criteria for continued surveillance. The second focuses rather on the monitoring and assessment of draft budgetary plans and correcting excessive deficits in the euro area countries.

This would enable the Council and Commission to examine national draft budgets and take a position before they are adopted by national parliaments. But let me make it perfectly clear: national budgets will continue, quite rightly, to be agreed and adopted by national parliaments; the Commission's role is to ensure that those national parliaments are better informed of the European rules that their budget must follow and what impact their budgetary proposals might have on the rest of the EU.

This leads me nicely to the key issue of democratic oversight over European economic governance. Of course, intergovernmental cooperation and consensus is vital if we are to reform European economic governance.

But with the situation in Member States differing so widely, what kind of consensus can we expect? Will it go far enough to allow us to do what needs to be done? And can we expect it to last in the long term?

I firmly believe that this is not an issue that can or should be left to national governments alone, and which needs to be complemented by more effective dialogue between the Commission and national parliaments - and by implication with the Committees that you represent.

This is all the more important at a time when the 'two pack' proposals are being negotiated, and where it is vital to ensure that the budgetary authority of national Parliaments is fully respected in the new economic governance framework. Again, I want to stress that the economic governance framework leaves the last word in the budgetary procedure to national parliaments – as it should be. But what the Commission would like to see is national parliaments playing a much more active role, alongside the European Parliament, in the continuing debate on how best to enhance Europe's economic governance.

Finally, let me turn briefly to the so-called 'fiscal compact' agreed by the leaders of 26 Member States at the European Summit of 8-9 December 2011. The compact is intended to strengthen fiscal discipline and introduce stricter surveillance in the excessive deficit procedure, to further strengthen economic coordination in the euro area, for example by discussion of plans for major economic policy reforms in advance of their adoption. These decisions are to be enshrined in an international agreement.

The fiscal compact bolsters the Stability and Growth Pact beyond what would have been possible on the basis of the EU treaties. For example, according to the Treaties, the decision to open a so-called Excessive Deficit Procedure or to take the next step in that procedure must be backed by a qualified majority.

The international agreement makes this process easier – indeed, the support of Member States for the decision is taken as given unless a qualified majority of Member States opposes it. National parliaments will have a role to play, in particular through discussions on how national economic and budgetary policies are run.

Obviously, the Commission regrets that the European Council had to resort to an intergovernmental treaty for the fiscal compact due to the lack of unanimity by all 27 EU Member States, but we broadly welcome the content of the agreement, building as it does on the solid foundation laid by the "six pack" and continuing in the same vein as the "two pack" proposals. We are also encouraged that the role of the EU institutions was recognised in policing the compact, and that the Commission and Parliament are associated with the negotiations.

In practice, many of the measures agreed in the international agreement will be implemented through secondary legislation fully based on the Community method, and I am optimistic that the provisions of the agreement will eventually be incorporated within the overall EU legal framework.

The informal European Council today will be discussing the agreement on the fiscal compact – and I sincerely hope that the text on the table can be agreed as quickly as possible. Because we need to go to another stage in our response to the crisis – and the European Council is doing just that today, by holding a debate on growth and employment.

This is very welcome. Because as I have said, the EU has a plan for growth: the Europe 2020 Strategy, which has all the right elements. We now need to move on with its implementation – to make the EU smart, sustainable and inclusive by 2020. But we are already two years into this strategy and it's only 8 years to 2020.

So Heads of State and Government need to be aware of this reality – and today's informal meeting could be a staging post for the Spring European Council at the start of March, where the European Council will adopt economic guidance for the EU as a whole under our European Semester.

In its Annual Growth Survey the Commission has already set out its views on the policy priorities for the EU as a whole. For today's summit, the Commission President will concentrate on three themes:

- growth-friendly fiscal consolidation, with concrete examples of good and bad practices, and stress the importance of the tax shift from labour to consumption;
- tackling unemployment, and in particular the challenge of youth employment. This could include EU action such as a "Youth on the Move" Pact to combat youth unemployment involving all Member States (that wish to participate) and a particular focus on those Member States with youth unemployment levels significantly above the EU average;

- and finally promoting competitiveness, in particular for SMEs through access to credit and delivering on the fast track pro-growth measures the Commission identified in the Annual Growth Survey. This covers in particular measures to complete the Single Market, which would significantly boost growth: implementing the reforms already proposed by the Commission would add around 3% to the GDP level in 2020.

We cannot leave this potential unrealised – just the full implementation of the Services Directive could increase trade in commercial services by 45% and Foreign Direct Investment (FDI) by around 20%. It can bring 0.5 to 1.5% increase in GDP. It is unacceptable that so many Member States have not yet implemented it. After years of long and difficult negotiations, the European Patent is currently blocked in the Council because three Member States cannot agree on who will host the new patent court – and this would reduce patenting costs by 80% !

So the Commission looks forward to a good, substantive discussion in today's summit on Growth and employment, because this is what our citizens expect us to address. And we owe it to the citizens of Europe to prove to them that we can take the necessary action to find long-term solutions to the current crisis.

Public faith in our institutions – be they European or national – is at an all-time low, and is unlikely to be improved if we appear once again to be putting narrow self-interest above the greater European good. What message do we send to the people of Europe if we let the euro – the core of the European project – collapse simply because we were not mature enough, open enough to find the right solution?

The crisis has shown that we are interdependent. What happens in one Member State has an undoubted impact on the rest of them, for better or for worse, and it is clear that we cannot act alone – either as individual Member States or institutions – in tackling our problems.

We are taking the necessary action to respond to this crisis. But this action will ultimately only be successful if we continue to work together, if we step up the dialogue, if we improve our understanding of each other. We need to understand what is really at stake beyond our own national or institutional boundaries, and this dialogue is essential to ensure the democratic legitimacy of our actions. And only in this way we will be able to ensure not only long-term growth and prosperity for all, but also that Europeans once again trust their institutions.

Thank you very much for listening, and as always, I look forward to the debate.