

Building confidence together

INTERVIEW WITH JOSÉ MANUEL BARROSO

PRESIDENT OF THE EUROPEAN COMMISSION

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Please outline the European Commission's strategy for restoring economic confidence and ensuring stable lending. What are your ambitions in this regard for the G20 London Summit?

It is very important that we reach agreement at the G20 London meeting on four main areas. The first is the importance of achieving global economic recovery and this requires a stimulus package which will resuscitate the world economy. It is clear that we need an immediate co-ordinated effort. We are currently experiencing the first ever global economic crisis and given that all our economies are so inter-dependent, it is quite evident that a co-ordinated effort will help avoid the negative spillovers of measures taken by some countries and we can also increase the synergistic benefits via a global effort.

The second point, is the importance of ensuring a consistent approach to global regulation and supervision in the financial sector. It is now well established that there were serious problems of supervision and regulation, or lack of it, and I think it is now time to reach

a consensus on these matters. Specifically we must address some particular problems in the banking sector, especially the issue of toxic assets, and I hope that the G20 will make significant progress in this area.

The third area is international trade, where we are seeing sharp declines in global trade, which in turn is creating a number of serious challenges. In this context it is vital that we agree to resist all forms of protectionism and economic nationalism and we should commit to a positive conclusion to the Doha trade talks.

The fourth issue – and all of these points are inter-linked – is not to forget the situation of the poorest in the world; we must continue to support the developing nations and focus on reaching the Millennium Development Goals.

If we achieve these four objectives, and I think we can, we can be proud of our achievements.

We are very focused on making the G20 London Summit a success. Given that the Summit takes place in London with the UK's leadership and initiative, we hope that this Summit will help shape the consensus. Let's not forget, too, that the process itself was initiated by the European Commission – it was during the French Presidency of the European Union when Nicolas Sarkozy and I went to see the then US President, George Bush, and



proposed that we launch this process.

So we are absolutely determined to make the Summit a success as it is important to increase confidence worldwide and if the leaders assembled in London show a common determination, I think that confidence will help us out of the crisis sooner.

You talk about rebuilding trust in the financial markets with a European system of supervision and underlining the ethical dimension – how is the European Commission responding to this issue?

Before and during this crisis it appears that there was action and behaviour which have been very negative from an ethical point of view. We have to balance, however, the importance of restricting some activities with the importance of maintaining free markets, free economies and free societies; we need some rules. Open societies and economies can only function within the context of the rule of law and proper standards of transparency and accountability. This is why I am committed to preventing financial institutions from operating within a 'shadow' system, thereby escaping supervision and regulation. Activities such as money laundering and the linkage to the financing of terrorism is simply not acceptable. So I think there is now a growing consensus that we need to act in this area and why I believe it is important to put ethics back at the centre of the financial system. It is also a way to reinforce the legitimacy of the financial system which is vital to an open global economy.

The European recovery plan aims to support the real economy. Its success depends, to some extent, on a commitment to defend the internal market – are you concerned about growing economic nationalism? Will the G20 London Summit be an opportunity to underline the importance of the internal market?

As I have mentioned, I am concerned about economic nationalism but not specifically in Europe. But more generally we have seen some comments and indeed statements which have displayed protectionist tendencies. To some extent we have to understand that this is a natural response at a time of crisis where nations feel the need to close their economies but this is not in the global interest.

Are you referring to the United States?

Well the 'Buy American' slogan was not a very good or helpful one but thanks to President Obama's leadership this issue was clarified. We have obviously made clear to our American friends our opposition to this sort of approach. To be frank, there are also economic nationalist tendencies in Europe, but so far we have been able to resist these. The role of the European Commission has been fundamental in safeguarding

the principles and rules embedded in the treaties which underline respect for the internal market. So I hope, and believe, that we will resist protectionism at the European level and we must also ensure a level playing field at the global level.

Are you confident that the European response to the G20 London Summit Meeting will represent a common position? What are the differences to be resolved?

Of course there is a natural debate between members – we are twenty-seven countries in Europe and six of them, plus the Commission, will be represented at the London Summit but I am sure that the Europeans will have a common stance – as part of our contribution to a more global position. We should, however, not characterise this effort as Europe versus the rest of the world – on the contrary, Europe will make a positive contribution because we have far more experience than others in terms of supra and transnational co-operation. Our daily life in the European Union is about deploying and implementing standards and rules for the benefit of twenty-seven countries and I believe that, without appearing arrogant, we in Europe have special experience in working on transnational matters. I believe that we in Europe can make an important contribution, through our experience, in working with our American friends and all our other partners, to come to a consensual approach.

With European unemployment forecast to reach 10 per cent in 2009, how can the European Commission help limit the social impact of the crisis?

All of the measures that we have already taken collectively in terms of economic recovery are themselves measures to combat and fight unemployment. Indeed the rise in unemployment is one of my primary concerns. In addition to the recovery packages already announced, we believe that specific measures can be taken, some at national level, some at the European level. We can deploy some of our Funds such as the European Social Fund and the European Globalisation Adjustment Fund, in cases where workers have lost their jobs and require training or retraining to improve skill levels. A number of our member states are also introducing flexible working times to allow training. We will also have a European level Summit in May 2009 specially devoted to the problem of unemployment and how we can reduce its impact.

The European stimulus package amounts to some 3.3 per cent of GDP with 'automatic stabilisers' compared with the US package of representing 5.6 per cent of national product. Is the EU economic stimulus package therefore inadequate?

The European stimulus package is worth about 3.3 per cent, incorporating the automatic stabilisers, and some ►

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José Manuel Barroso, President of the European Commission

We have advised member states to apply a fiscal stimulus – the fiscal stimulus will be timely, temporary and targeted

◀ say the package is much more like 4 per cent of GDP. It is difficult, and indeed misleading, to compare the efforts of the United States and Europe because of the different structural characteristics of their economies.

I think it is now vital that we should focus on the implementation of what has been agreed rather than making meaningless comparisons. Only now are we implementing the European level agreements because there has been a lag time between the decisions being made and their implementation. So I don't think it is right that every time we approve a recovery plan there is speculation about the possibility of the next one. Let us implement this one and, of course, follow the situation closely, keep the position under close review, and then decide if it is necessary to approve further measures. It is worth remembering that this is the most ambitious plan ever adopted in Europe in such a co-ordinated manner.

How prepared are countries to co-ordinate macro-economic policy and what role can the European Commission play? How might this co-ordination happen?

We have advised member states to apply a fiscal stimulus – the fiscal stimulus will be timely, temporary and targeted. We are now working with all finance ministers and all governments to be very precise on defining the point of return to viability. This will enable expenditure and therefore deficits to increase but on the basis of a clear target to viability. We need not only a way out of this crisis but also a way out of debt.

Will the current crisis strengthen pan-European Institutions?

Yes, I believe that this crisis is reinforcing European Institutions and, indeed, the European approach, and for very obvious reasons. This crisis is a global crisis. At

the beginning it was seen as American, then American and European and now it is quite evident that it is a real global crisis. So if Europe acts together – as the European Union – the pre-eminent global trade partner with an aggregate product bigger than even the US, then Europe will have greater leverage and influence to shape the global response. This is why I really believe that the crisis has both strengthened and made the case for a European approach. This doesn't mean centralisation – I am not in favour of centralisation – but it does mean greater co-ordination at the European level.

Is the G20 London meeting a suitable forum to resolve these global issues?

The G20 is an important forum because we are faced with a global problem which requires a global solution. We need the participation of not just the G20 but all the countries represented at the United Nations, to agree on the measures. However, in order to shape the consensus, the G20 is crucial because it incorporates and assembles the key global economies. These countries provide a significant opportunity to reach a global consensus representing, as they do, more than 95 per cent of the world's financial sector. The G20 format is especially potent as it comprises not only Europe and the United States, but also the big emerging economies including China, India, Brazil and so on, as well as the European Commission itself. The G20 is a combination of concerted partners, fusing economy and democracy.

By what benchmarks will the G20 London Summit be judged? How will success be gauged?

Its success will depend on agreeing a co-ordinated effort for the global economic recovery. A clear commitment to enhance supervision and regulation of financial markets and institutions, a concerted effort to conclude the Doha trade talks and precise commitments to helping the poorest countries via the Millennium Development Goals. These are my four key benchmarks.

My overall vision for the G20 London Meeting will be to see global unity – we either sink or swim together – of course I hope we will swim together – we in the European Commission believe in a global approach to problems and I am certain this is the only route to success. If we achieve resolution – if we in Europe have a common position, if we are constructive with others – this crisis can also become a great opportunity, allowing nations to unite around a common set of values, the values of open societies and open economies within the context of a coherent set of principles and rules that are agreed by all.

We are living at a very difficult moment economically but I see hope if global leaders will take decisive action and take responsibility for those decisions. I am hopeful for the success of the process and I think Europe can make a great contribution. **F**



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