

Dr Schäuble:

Thank you very much Chancellor. Ladies and gentleman, it gives me great pleasure to speak to you today about Europe. Maybe the people who could not join this room will listen to the first few words and then they will be happy not to have joined this room. [laughter] But having said that, I will say that it is a sign of hope for me that there are many young people that are interested in European matters, even in St Antony's. By the way, there are few other places that are appropriate for a lecture on Europe as Britain's foremost place of learning. Was it not Sir Winston Churchill who first sketched the concept of a united Europe? And where else in the EU today does Europe excite as much passion as in the UK? Where else does it occupy a similarly privileged place across the national media? There was a time I was told that a celebrated hotel owner advised his staff not to mention the war to their German guests. [laughter] Today Basil Fawlty may well instruct his guests: don't mention the Euro. [laughter] Over the centuries, the bonds between European nations have not always been equally strong. Our relationships have sometimes been warm, sometimes less so, and the 20th century was no exception in this regard. But a sense of community among the peoples of Europe always prevailed. During the continent's history, Britain, and Oxford in particular, often became safe havens for continental refugees. Periods of crisis on the European continent have often made your country more European. London was perhaps never as French as the years following the French Revolution. And British resilience in the face of totalitarian evil throughout the 20th century, and its willingness to permit the immigration of thousands of refugees from the continent made Oxford in the mid-20th century a more European place than it had ever been before. In Oxford we cannot fail to perceive that our past is European. The question before us is "what does this mean for our future?" I do not mean to be overly dramatic. We do not face the return of hostilities that have plagued our nations for centuries. The media likes to describe today's political disagreements between European countries in stark language. In my view the debates we have seen over the last 2 years demonstrate, if anything, substantial strengths European integration has reached over the years. We disagree, we argue, we criticize. But, this is how politics works. Within all democracies we have learned to accept that a society's willingness to allow the public confrontation over divergent issues is a sign of its health. In the present crisis we deal with serious issues, and with conflicting interests. We cannot be surprised that oppositions are clearly articulated. What is remarkable is that confrontational and aggressive nationalisms is almost entirely limited to very small fringes of European societies. But if it is the case that Europe is not confronted with the potential return to a political Ice Age between its nations, it's nevertheless true that we face difficult and fundamental decisions. These decisions do not only concern the details of the EU budget or the European stability mechanism – important as those are. They are not even limited to the issue of the common currency. At the most fundamental level Europe today needs to regain its compass. It must be clear about its future direction of travel.

My impression is that over the last few years, partly as a result of the financial crisis, differences have emerged over our very idea of the future of European integration. My view is that agreement on this idea matters. Once we know where we want to go, we can productively and fruitfully disagree on many points of detail. But if we cannot find common ground on the broad vision we have for the European project, it will be increasingly difficult to come to terms with the practical problems we face on an everyday level. When European integration began after the horrors of WWII, its political founders were clear that their project was more than the creation of a free trade zone. They were determined to lay the foundation of an ever-closer union amongst the peoples of Europe as the Treaties of Rome famously put it. What has become today of this prospect? I see two very different answers. The first of them looks back to 60 years of post-war European integration as a story of principal success and progress. It highlights how throughout the different phases of the EU's history many areas of economic, political and social life have converged. People today travel across much of continental Europe without border controls. They pay, in many of these countries, with the same currency. The goods they buy are regulated by competition and environmental laws, many of which apply across the current 27 members of the EU. The award of the Nobel Peace Prize to the EU this year recognizes the union's remarkable achievement in giving our once war-torn continent the longest area of peacetime and cooperation in its turbulent history and making Europe a major world player in its own right. From this point of view, the idea of an ever closer union between European peoples has been the model correctly describing the direction of travels the countries of Europe have taken over the last couple of decades. In fact, it continues to describe the direction insofar as the union of peoples of Europe remains an unfinished project. Whatever the precise description of this goal, the European Union still moves toward an ever closer union of its member states. Those like myself who share this perception of the European project are by no means blind to the many weaknesses that have slowed its progresses. We acknowledge that legal standard associations across nations have at times been created by a bureaucracy that often seems remote and detached from the concerns of the people. Even the tough eurocrats have become a convenient scapegoat for national politicians who often bear much of the responsibility for sub-optimal decision making. We recognize that the need to find a compromised solution palatable to all member states has often turned grand political ambitions into petty negotiations about bargains, subsidies or replacements benefitting individual countries. We are well aware of the fact that the European project is still, and perhaps increasingly, detached from the reality of most European citizens. We have no European public to speak of, in spite of political institutions which represent Europe's citizens, interest in their work and even basic familiarity with their functioning is not widespread in the EU.

Last, but certainly not least we are faced with a serious monetary crisis which, if it cannot be contained, threatens to undermine the very idea of European integration. All of these difficulties, however, do not vitiate against the general validity of European integration.

Politics, as Bismarck famously remarked, is the art of the possible. The politician will always face difficulties in the project he seeks to accomplish. He has to accept that what we can achieve will never ever even come close to what he had ideally would have hoped to achieve. This is political reality whether we look at governors of small regions, of nation-states, or at the European level. This, in very broad strokes, is one vision of Europe. I believe it is still valid and in fact politically the most helpful, the most forward-looking, the most promising reason we have.

I speak here today to defend this vision and to argue that recent events are misconstrued if taken to demand the abolition of the goal of European integration. However, I am fully aware that for some this has ceased to be a realistic objective – at least in the short term. In recent years there has been across Europe a growing chorus of skeptics who for very different reasons have lost faith in the European project. They too look back to the early years after the war, but their story is a very different one. According to this account, European integration was a good idea as long as it was clearly limited to goals that could realistically be achieved: creating a single market, for example, opening Europe to the free movement of goods and of people, thus creating a highly competitive free-trade zone while leaving the sovereignty unambiguously with national parliaments and governments. The project was derailed, according to this reading of our history, when European politicians ceased to distinguish the politically desirable from the pragmatically feasible. The massive complications inevitably arising from the attempted economy and the political integration of growing number of increasingly diverse nation-states were ignored, says this theory, by those blinded by the grand desire of a future united Europe. But has history not taught us that such a design is unlikely to work? Have there not been successive historical attempts to overcome the political and territorial diversity of Europe in the interest of its global competitiveness, and have they not all failed the test of practicability? From Charlemagne to Napoleon, such projects ended in failure because the peoples of Europe cherish their independence and refuse to exchange it for the promised blessings of a European state. It's no coincidence that advocates of this view cite the introduction of the euro as major evidence supporting their theory. After all, the financial crisis has thrown doubt about the merits of the European project within the EU and beyond. And nobody can or would deny that this crisis has exposed the fundamental flaw within the original design of the currency union.

We introduced the common currency within a community of nation states that still retain their full budgetary sovereignty. With that we had a common currency but no fiscal union, no supra-national control over national budgets, and no European regulation of banks. No wonder a serious financial crisis stretched the systems to breaking point. The critics are right in my view to warn that European integration can very easily turn from a pragmatic political venture into an ideological project which is pursued without proper regard for its chance of success. They are also justified in their worry that decisions taken away from those who are most affected by them, easily become abstract and ineffective. A fundamental point of

Germany's political and legal system is the principle of subsidiarity. It demands that decisions must always be taken at the lowest possible level. Don't let the central government decide what can reasonably be decided by local communities or at the regional level. From our point of view Europe should stick to the subsidiarity principle. Its responsibilities should be restricted to that which cannot sensibly be fulfilled at the national or the regional or the local level. Vigilance is needed here but the same is true within many existing nation states. A tendency to needlessly centralize power is certainly not a special problem of the EU. I strongly disagree however with the claim that any of these shortcomings necessitates a fundamental revision of the aims of European integration. On the contrary, we need integration, in fact I think we need more integration, in order to overcome existing problems. The difficulties the single currency has faced during the financial crisis has not invalidated the reasons that originally justified its introduction. In many ways the euro has been remarkably successful. Given how many obituaries were prematurely written for it, it continues to exist. Its exchange rate to the dollar, the pound, and other major currencies is stable. Inflation in the euro zone has been low throughout the currency's existence - by the way lower compared to the inflation rate in times the Deutschmark in federal Germany. Nor has the currency union lost any of its members. If I am not mistaken the voices of those predicting the imminent exodus of one or more countries from southern Europe have recently become much quieter. By the way, the last poll in Germany shows a majority in favour of Greece not leaving the euro zone. Indeed the crisis has forced the countries that make up the euro zone to confront the initial shortcomings of the currency union, and we're in the middle of a successful effort to improve them. We have introduced bailout mechanisms. We have created the ESM. We are moving towards the closer coordination of fiscal policies across the euro zone. We are on the way to creating a stability union for public finances. The stability prospects have been strengthened. We introduced the balanced-budget rule in the preventive arm. There is now a much larger focus on debt reduction. For members in the euro that do not comply, a sanction mechanism is in place. And we made these instruments more credible by introducing high hurdles for the Council to block a proposal from the Commission.

Not long ago much of this would've been unthinkable. Far from undoing the European project, the crisis has been helping to advance it. Admittedly the crisis is not over, and no one knows what challenges might lay ahead but I would predict that when Europe emerges from the crisis it will emerge stronger and more unified than before. It will not only have retained its common currency, but will have improved existing mechanisms to protect it and make it work. Why is this happening? I think the fundamental answer is that Europeans are working to protect the current state of European integration including the common currency because they recognize that it has brought them, and continues to bring them, enormous benefit. Lincoln famously said that you can fool some of the people all of the time, and all of the people some of the time, but you cannot fool all of the people all of the time. Even at the height of the Greek crisis, support for the euro and the currency were still

at 80%. The same, I am convinced, is fundamentally the case across the euro zone and there is a reason for this. Businesses in the euro zone countries enjoy a huge market with 330 million consumers in 17 countries. 40% of German exports for example go to the euro zone. But perhaps more importantly, of the exports that leave the currency area, 60% are denominated in euros. This is the advantage of operating with a major currency. And especially small and medium-sized companies are perfectly aware of it. There are also indications that the common currency is good for growth. A McKinsey study earlier this year found that being a member of the euro zone increased the Finnish GDP by 6.7% in 2010, the German GDP by 6.6, and the Austrian GDP by 7.8%. Contrary to what its opponents claim, the major steps of European unification including the introduction of the euro were not driven by wishful thinking or by ideology. Rather, they were the result of pragmatic considerations, of negotiations and compromises between governments acting in the best interest of people. One can always, with the benefit of hindsight, speculate whether one or the other decisions was perfect or should have been taken differently. Once again I cannot see how European politics is different in this regard from any other area of political decision making. Most European countries agree that European integration is their best chance to compete economically and politically in an increasingly globalized world.

Another popular concern is the alleged goal of a European super-state. Let me persuade you, however, that on this count a difference of principle does not exist. It's true that people have occasionally used the phrase of the United States of Europe in an affirmative sense. I never adopted it myself, but formulations apart, the establishment of a European state as a policy goal, nobody seriously envisages. It has always been a principal of European integration that the sovereignty of the nation-states remains fundamental. Given how deeply enshrined this principle is in many constitutions and political traditions all over Europe, I cannot see how anyone would in earnest plan to move beyond it. All European agreements are technically pacts between sovereign nation-states that are and remain the ultimate political subjects. What then is the origin of this suspicion? I believe that it is due to the singular character of the EU as an institution. It's neither a mere alliance of nations, nor a federal state. Member states have ceded sovereignty to it, and I might add that this has been necessary, and more may be necessary. To understand the EU one needs to think imaginatively and accept that it is a *sui generis* entity. Trying to classify the alternative into categories like federal state versus common market, between nations and nation-states, is not helpful. Historically, national sovereignty has been a cherished principle of European statehood. Is it not the demand to cede sovereignty to a supranational body ultimately tantamount to the creation of a European nation-state? Colin Crouch who for years taught at Warwick University has succinctly explained the situation. He argues that there is no contradiction between national sovereignty and European integration. The alternative to European integration, he writes, is not "a return to national sovereignty but the submission to global economies dominated by the network of other states over which Europe has no influence". In other words, and I could not agree more with Crouch, those who oppose

Europe in the interest of their national independence will find that there are other forces in our globalized market economy which are far more dictatorial because there are no voting mechanisms which allow vetoes. It is therefore, to cite Crouch, Europe which has ultimately secured our national autonomy. While I agree that much of the opposition to Europe's political integration is based on misconceptions, I would like to reiterate that a certain amount of scepticism throughout European institutions is perfectly justified. A tendency to centralize power exists, and where it operates without proper control, it's dangerous. Ceding power to Brussels is not the apocalyptic scenario that some opponents of European integration perceive. But neither is it a means that in itself moves the European project forward. It must be linked to real reform of European institutions so as to guarantee that powers are exercised judiciously and in accordance with democratic principles. These reforms, in my view, should include the introduction of more democratic participation of the electorate across Europe. If there is power, there must be more accountability. One important element of the democratization of Europe could be the election by popular vote of the president of the European Commission. It would give a face to the political unification of Europe and it would allow the successful candidate to wield real power. I am aware of course that this is not going to happen tomorrow. More immediate plans concern partly European lists for elections to the European Parliament. Plans for this have been drawn up, and with some luck can be introduced in time for the next election in 2014.

Perhaps you will allow me to add at this point a few words about the UK as part of the European Union. I'm fully aware that Britain, more than other European countries, is currently going through a process of reflection about its relationship with its European partners. I understand and respect that this is a discussion that must primarily take place in Britain. However, the United Kingdom has also been part of the European Community since 1973. Most major European developments since then have benefited from its British participation. Many leading figures in European institutions have been British. So we fellow Europeans have our own vested interest in the future of the UK in the EU. Let me say first of all that I understand that changes in the British situation within the EU have partly happened simply because of the increased importance the group of 17 Euro members has taken on in the course of the crisis. Other EU members outside the common currency have experienced a similar development. But unless I'm mistaken, the sceptical voices have become particularly strong here. Fundamental doubts about the wisdom of European integration and especially the common currency have appeared to dominate the national debate. The option of a referendum about Britain's future in Europe does no longer seem far-fetched, and whatever its results the effects such a referendum, even the fact that is seriously considered, is indicative of the growing tide of euro- scepticism.

I would like to make three brief comments about Britain and Europe. My first is that Europe needs the United Kingdom. There are various reasons why this is the case. Britain is one of Europe's strongest, most innovative economies. London is the financial capital of Europe. Through Britain, Europe is connected with the English-speaking world. I could easily extend

this list but would prefer to make a somewhat different point. I have been speaking here today about visions for Europe. Europe needs a vision if it's going to have a future. We need a fundamental agreement, but it's also important to have an on-going critical debate about the best way forward. It's only such a competition of ideas that will secure our success. In my view the British voice is sorely needed in this competition of ideas. It may seem facile today to bring up this country's long and successful story of democracy and parliamentarianism. Do not other countries by now have long-established democratic cultures too? They do, but within European approaches to political as well as economic ideals, Britain still represents its own special way, and I firmly believe Europe would be the poorer without this input to our debates. Britain should retain and regain a place at the centre of Europe because this will be good for the European Union.

My second comment is that Europe is also good for Britain. The nation is still safe in the EU. I fear this is not always fully recognized. Some in the British media prefer to think of Europe as a major burden. Perhaps it's something our two countries have in common, however this is one side of the complex truths and arguable lessons. About a month ago the Polish Foreign Minister Radek Sikorski gave the Blenheim Palace speech only a few miles from here. In this speech he enumerated no fewer than eight British myths about the European Union. They range from the misleading claim that British trade with other parts of the world is more important than its European trade to often-cited prejudices about European institutions and their impact on Britain and to the rather specific complaint that allegedly new proposals for EU pesticides legislation would ban the gardeners from using coffee grounds to tackle slugs. The latter is a good example of the surprising willingness of parts of the media in Britain and elsewhere to invent incriminating claims against the European Union, and it also shows that a large proportion of the population are ready to believe such claims regardless of their factual basis. More important than those myths, however, Sikorski points out there are the hard facts that make EU membership attractive for the UK. Like Colin Crouch, he argues that the freedom gained by leaving is wiped out by the resulting loss of influence on the global level. Ultimately the EU is beneficial to the UK both economically and politically.

And my third comment therefore is that we should try to work this out together. Britain's people will have to come to a considered view about its future in Europe. I am convinced that when all is said and done they will come to the pragmatic conclusion that it is in their own best interest to stay in and be part of an influence the European project. After all this is why United Kingdom decided to join in 1973. Let's be optimistic and observe the 40th anniversary of this momentous decision in the more recent history of your country will coincide with a renewed commitment to the idea of an ever closer union of the European peoples. Equally important however is that everybody in Europe needs to keep thinking about the future shape of our economic and political union. The noise created by the currency crisis has distracted us from this task but it is also made it clear how urgent that the clarification is. I should hope that when we sit down for a full discussion of our visions

for Europe's future, Britain will play a vital part in those debates. Germany at any rate is firmly and irrevocably committed to a common future in Europe, and we will do all it takes to make it a success. One of the great institutions of British culture is the obituary. Today the UK has become the leading market for obituaries on the euro and European integration more generally. Reading a certain pink paper I note that even Germans, always eager to export, have started catering to the niche. Let me end this lecture by saying to all involved I am convinced that this is not a sustainable business model. Thank you very much.