

I am glad to have this opportunity to contribute to your debate on economic governance in the European Union. I would have wished to be able to join your discussion in Copenhagen, but because of some ongoing crisis-management must resort to these electronic means of communication. Nevertheless, I hope to be able to give some food for thought for what I can foresee to be a lively and substantive debate, in the best tradition of Danish democracy.

Let me go directly into the subject of the hearing, the new architecture of economic governance in Europe.

The EU treaties say very clearly that EU member states must regard their economic policies as a matter of common concern. We have been and are still paying dearly for our negligence in this regard.

This year will be the year when the future governance of the Euro will be determined. And it will be the year when strong monetary union will finally be complemented by an ever closer economic union. The Commission and the Danish Presidency are working hand in hand towards this objective.

This will happen against the background of a worsening economic outlook. We are going through a mild recession in the EU. And it could turn much nastier if we do not contain the sovereign debt crisis.

The EU is responding to the sovereign debt crisis with a twin strategy to create lasting financial stability and sustainable economic growth and employment.

Ladies and Gentlemen,

We are putting in place a new stability culture as the core principle of economic governance in the EU. Economic theory tells us that for sustained economic growth, institutions matter.

"Institutions" in this economic sense is the set of rules and norms that guide our behaviour. We are rebuilding our common European house with set of rules that will prevent and, where necessary, correct any emerging threats to the stability.

In December, six pieces of legislation to strengthen the Stability and Growth Pact entered into force, the so-called six-pack. This important new set of rules is now helping us to tackle both fiscal and macro-economic imbalances of Member States much earlier than has previously been the case. The new tools include financial sanctions to be imposed if a euro area Member State does not follow EU recommendations to put its fiscal house in order.

In fact, the reinforced Stability and Growth Pact has proven to work already. Currently we have 23 Member States in violation of the Maastricht criteria, or, in our terminology, in the Excessive Deficit Procedure. With the new rules in force since December, those countries with close or imminent deadlines – last year and this year – have taken additional measures that were needed to avoid sanctions, with one exception, Hungary, regarding which the Commission will take appropriate steps soon. Shortly, we will also present our first report that takes a systematic account of the existing macro-economic imbalances.

And, just last week, leaders of 25 EU member states agreed to enshrine the principles of this new discipline in an international agreement, the new fiscal compact, which parliaments are asked to ratify in the course of this year. With this agreement the participating member states commit themselves to enshrine in national legislation the principles of fiscal discipline that already exist at EU level.

The Treaties do not only require that member states avoid excessive deficit and debt, but also that they aim at structurally balanced budgets, which ensure long term sustainability of public finances.

Ladies and Gentlemen,

Our approach to fiscal consolidation goes hand-in-hand with smart and growth-enhancing policies. These are two sides of the same coin.

There is little fiscal space for policies based on traditional fiscal stimulus. Structural reforms are therefore needed to underpin new growth. Reforms must be far-reaching, comprehensive and convincing, ranging from product and labour markets to the public sector.

The single market is our main tool to create and to dissipate innovation and dynamism across the EU. This is particularly important for such an open and competitive economy as Denmark.

We need to work harder for smart, green growth. Many policies on growth are principally a national responsibility, but the European Union has an important part to play. Let me give you a case in point: Taxation could be shifted away from labour towards a more growth-enhancing

composition, e.g. shifting towards consumption, property and pollution, and, in return, lower other taxes that help making work more attractive.

Another example of where we can do more is the Digital Single Market. Digital innovators face the complexity of 27 different legal systems, 27 different tax systems, 27 different licensing rules. In other words, a separate set of rules in every member state they want to operate in!

Moreover, a digital, resource-efficient and sustainable economy, producing green growth, cannot emerge without substantial investment in innovation, infrastructure and new production capacity. The current rates of productive investment in Europe are much too low.

We must find effective ways of incentivising the private sector to invest. At the EU level, we are developing new ways to better use resources from the EU budget to mobilize private capital by public co-financing.

Ladies and Gentlemen,

We have laid the foundations of an ever closer economic union, to complement the already strong monetary union.

Structural reforms and investment in innovation and infrastructure will pave the way for recovery and bring us back to the path of sustained and green growth.

These are the fundamental changes on the road to deeper economic integration and sustainable growth and job creation in Europe. I am inclined to say that together with the Danish Presidency we are undertaking nothing less than an economic reformation of Europe.