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Restoring European Competitiveness and Growth

Speech by Herman Van Rompuy
President of the European Council
at the Lisbon Council "2011 Euro Summit"

I

On the debris of two World Wars and a complete economic breakdown, the Europeans launched the project of European integration. It has allowed us step by step to build up stability and wealth, freedom and security, to reach the re-unification of our continent, to realise the Single Market and to create an Economic and Monetary Union. Across the world the "European Model" has been a symbol for these achievements - in economic as well as in social terms.

For the first time since the founding of the then "European Economic Community" in 1957, we have to fight for this "European Model". We have to fight for our Economic and Monetary Union, our wealth, our social security and Europe's place in the world. As I said last Friday in Italy, it is an "hour of truth".

II

The challenges are serious and complex, but it is clear that first, we need to bring back confidence and ensure financial stability. This is a necessary condition for everything else. At the same time, we need to create the conditions, notably through frontloading structural reforms, for a rapid return to growth. This is essential for jobs.

Restoring growth is a global responsibility. The United States has to reduce its public deficit and China has to stimulate its domestic demand and to increase the flexibility of its currency rate regime.

P R E S S

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First a few words on the Eurozone and the sovereign debt crisis, since restoring of its stability is key to everything else.

Since last year we have done a lot to address some of the major problems: work has been done at the level of the Union and the Eurozone, and at the level of individual Member States. Far-reaching changes to reinforce fiscal discipline and economic convergence.

Implementing the conclusions of the Task Force I chaired in 2010, the so called 6-pack on economic governance is a significant step forward in that sense. We have agreed at the October Summit to go even beyond that on the basis of new proposals I made, to further reinforce fiscal surveillance and coordination as well as economic governance.

At the same time, we have put in place a rescue mechanism from scratch, which is fully operational, and we are working to increase its efficiency.

Three Member States are now under a severe programme of adjustment with the EU and IMF support. Another one is closely monitored by the Commission and the IMF. All Member States are submitted to strict fiscal and macro-economic surveillance. Yet the negative developments on the financial markets over the last week and the economic forecast show that we need to do more. We need to go to the heart of the matter.

It is now necessary to address one of the fundamental issues: the Eurozone has to move towards a real economic union commensurate with the monetary union. We need to give both our citizens and the markets a clear message about the irreversibility of the euro as a core part of our broader European project of peace, stability and prosperity.

I have received a mandate from the Heads of State and Government at the last Euro Summit to put forward a set of ideas on how to deepen our economic union. This will require a combination of two things: a significant strengthening of our rules and mechanisms for fiscal responsibility and a large step in terms of integration in economic policies, particularly in those areas that are important for the smooth functioning of the monetary union. Clearly, this will imply in some of these areas a pooling of sovereignty in exchange for a stronger, more stable monetary union.

All these efforts to overcome the crisis are taking place in an economic environment that has clearly deteriorated in the past few months. The prospects for growth are now weaker - in Europe as well as globally:

- GDP in the EU is now projected to stagnate until well into 2012. Growth for the whole of 2012 is only forecast at about 0.5%. By 2013, a return to slow growth of about 1.5% is expected.

- No real improvements are projected for labour markets. Unemployment is forecast to remain at the current high level of around 9.5%, with significant and persistent disparities between Member States. For example, youth unemployment reached in July EU-wide 20.7%, with less than 8% in Austria and the Netherlands to 46.2% in Spain. These divergences are inacceptable in a monetary Union.

- Also on the global scale, the pace of world growth has been slowing over the last months and the global economic outlook has deteriorated in recent weeks as well.

In this situation, our main task is to find the right balance between austerity measures and stimulus, between competitiveness and social inclusion.

But let us be clear: the slowing economic growth in the Eurozone is on average not due to fiscal consolidation. It also has to do with credit restraint and a lack of confidence by consumers as well as investors. Overall deficit spending can therefore not be the answer to the current situation.

Last but not least, and to complete the scene: We must be aware that public anxiety in Europe is mounting about the immediate economic and financial situation. People are growingly concerned about their jobs, their savings and the future of their children. These concerns are legitimate and Europe needs to be responsive.

III.

Economic growth and employment bear the brunt of a loss of confidence due to the financial instability in the Eurozone. Slowing growth prospects affect bond markets; volatile bond markets affect public finances. Everything is in everything. All is in all. That is why we must adopt a comprehensive approach and reverse the vicious circle.

1. The EU2020-Strategy

The Europe2020-strategy is the backbone of our policy to improve European competitiveness and growth.

The next Multiannual Financial Framework will most probably foresee that as many policies as possible will be directed towards reaching these targets. And this implies a reshuffling of expenditures. Always painful!

This underlines as well the central role the EU2020-Strategy has in European policy-making for the stimulation of growth and employment - and I welcome the continuous activities of the Lisbon Council in support of this Strategy.

Member States have to integrate these targets and their national strategies as well. They have to prioritise future-oriented expenditures and to proceed with expenditure cuts in other domains. Cuts which are mostly socially and electorally more sensitive.

2. The Euro Plus Pact

To further strengthen the economic governance in the EU, the European Council adopted in March this year the so-called Euro Plus Pact:

Up to now, 23 member States (17 from the Eurozone and 6 others) have subscribed to the Pact which includes new and far-reaching commitments in five different areas. Let me only mention the most important:

First, progress in fostering competitiveness will be assured on the basis of wage and productivity developments. National unit labour cost, the key for measuring competiveness, will be monitored against the average in the Eurozone.

Second, to foster employment, measures under the Pact shall include labour market reforms, life-long learning and tax reforms such as lowering taxes on labour.

Third, to enhance the sustainability of public finances pensions and social benefits shall be aligned to the national demographic situation. Besides early retirement schemes shall be limited and national fiscal rules shall be strengthened (debt brake).

Fourth, to reinforce financial stability, the level of private debt for banks, households and non-financial firms shall be monitored.

Last, but not least, signatories agree for the first time that the development of a common corporate tax base could be a revenue neutral way forward to ensure consistency among national systems and to contribute to the competitiveness of European businesses.

Some in Brussels were worried these efforts would hinder other efforts - but not the Lisbon Council, as I see from your Monitor!

So the Euro Plus Pact has been made consistent with, and builds upon, existing instruments like the EU 2020 Strategy, the European Semester, Integrated Guidelines, the Stability and Growth Pact and the new macroeconomic surveillance framework.

All these policies -- from the new Stability and Growth Pact to the Euro Plus Pact -- will work in the same direction: pushing Member States towards these reforms. Lagging countries - big or small - will be spotted by the markets and can be hit by sanctions. The time of complacencies is over. We learned these lessons, the hard way. The crisis was a rough teacher.

Governments and parliaments have to be fully aware that fiscal consolidation - on average 4% of GDP - will not be enough - certainly not in the usual way of "cutting here and taxing there". - These incremental changes belong to the past. It is a time for reforms.

IV.

As the British Deputy Prime Minister Nick Clegg rightly put it last week: We need a "laserlike focus" on growth.

This requires to know where the deadlocks damaging competitiveness and blocking growth are. To have a sharp feeling for where the need for action is:

- Comparing the actual growth with a "crises free" growth, the EU has lost about 2.000 billion euro between 2007 and 2010. This figure is equivalent to the GDP of France, or to 11% Europe's cumulative debt. It is indispensable to close this gap as soon as possible.

- In the last ten years, nominal labour cost rose within the EU by around 11%, and in Greece alone by more than 35%.

- From 1995 to 2007 labour productivity grew much more slowly in the EU than in the US, especially in the commercial services, but also in industry.

- Still, over the last fifteen years, the EU managed to create 23 million new jobs - an increase of nearly 11% compared to its total workforce [212 million]. Over the same period the labour force of the United States only grew by 3.3%.

- However, this last figure cannot hide the fact that in the global context the EU is lagging behind with regard to its investment in human capital and skills. Let me just give you three examples:

  - Today, in the EU only one person in three aged 25-34 has completed a university degree, compared to well above 50% in Japan and more than 40% in the US. Canada, Australia and South Korea all do better than the EU.

  - 66% of all Europeans have low or no IT-skills. The number of IT-graduates has not increased since 2008. If we do not go against this tendency, the EU may lack 700.000 IT-professionals by 2015.

  - About 80 million people in the EU have only low or basic skills. We need more access to training, but actual participation is stagnating.

Such figures point to the wider picture. As I said, we have to fight for the European model.

The crisis years since 2007 have accelerated certain long-term trends. Global economic power is shifting, to the emerging countries, to the Pacific. It now appears clearly that Europe's privileged position is not a God-given right.

Of course, many experts have been saying this for years -- and the Lisbon Council has been particularly vocal in this respect, and I thank you for this.

However, one of the side-effects of the crisis is that today, the public at large realises that we in Europe will not continue to out-compete and out-smart the rest of the world automatically. We can surely do, but it will require hard work. We must further continue this positive agenda.

First point: innovation, indispensable for growth. We must create an innovation friendly environment for our own businesses and for foreign investors.

As you know, last February, the European Council reached a common understanding on various measures with a high innovative and growth capacity.

Let me just mention one concrete example: the "Small Business Innovation Research"-initiative or SBIR. Its objective is to use state aids, public procurement measures and a better access to finance and venture capital to facilitate the transfer of a successful research initiative into a small business and to enable this small business to grow further. In the US, but also in Member States like the UK and the Netherlands, such programmes have been successfully implemented. The size and profitability of companies like Google is not only due to the entrepreneurship attitude of the American people, but also due to specific measures put in place by the public sector.

We need to keep this focus on. I therefore will put the topic again on the agenda of the upcoming March European Council: taking stock of what has been done since February this year, and discussing what further needs to be done.

Let me also stress that political reliability is of key importance here. To motivate private investment in innovative projects, businesses have to be sure that political decisions to support certain innovations will be valid for a longer term. - Let me just say the word "biofuels"…

Second: make investment and jobs a priority in the national budgets. That's why three weeks ago, the European Council sent a strong signal for a more growth-friendly pattern of fiscal consolidation:

We agreed that priority must be given to ensure the speedy deployment of the Single Market Act. This includes the full implementation of the Services Directive, the integrated market for energy, a better financial integration including venture capital and the modernisation of public procurement. Further completing the single market by these reforms would add around 3% to the GDP level in 2020.

We also asked the Commission to rapidly present its proposals on the completion of a fully integrated Digital Single Market. The total estimated value of online transactions in Europe was around 165 billion euro in 2010. 40% of consumers have used internet to purchase goods and services, but only 9% have done so from another Member State, A more sophisticated framework for E-commerce would significantly stimulate competition in retail markets and create new business opportunities, in particular for SMEs.

Third, use Structural Funds for growth. Taking into account that transfers from these funds amount up to 4% of GDP in some Member States, we need to maximise their growth capacity already in the current period until the end of 2013. Think of reprogramming the Social Fund to support young unemployed, or increasing the co-financing for SME lending for programme countries.

Fourth, and following on the third point: the EU should focus ALL central funding, to the extent possible, on growth-related measures. I therefore welcome that the Commission has proposed in the Multi Annual Financial Framework for 2014-2020 to concentrate expenditure on the EU2020-targets, with a strong focus on competitiveness and growth, on innovative financing and on macro-economic conditionality. Helping people to set up a business, creating key infrastructures in the transport or the energy sector: such measures and actions are essential.

Fifth, to create new jobs, we must also improve the EU's trade performance and attract more foreign investment. This implies a qualitative deepening of our economic and trade relations with partners whose markets are expanding at a significant pace, such as China and the emerging economies. Only the recently concluded Free Trade Agreement with South Korea will generate 1.6 billion euro in customs duties per year. Once fully implemented, it will lead to new trade opportunities of nearly 20 billion euro of additional EU goods and services exports. We are at present inter alia negotiating Free Trade Agreements with India, Mercosur and the Ukraine. Finally, as you know, negotiations are pending on a WTO-Membership of Russia.

It is my firm intention to keep all these items on the agenda. We will need to discuss further measures in March, on the basis of the Annual Growth Survey of the Commission and a comprehensive report of the incoming Danish Presidency. Heads of State and Government should in March be able to draw further concrete and substantial conclusions for the European competitiveness and growth agenda.

Finally, let me point out that I will read with great interest through the first "Euro Plus Monitor" of "The Lisbon Council" for 2011.

V.

As I said in the beginning: We have to fight now for our European model. To preserve it, we need to move towards financial stability, towards more European integration, towards more competitiveness.

This is a collective effort. The EU-Institutions can give the orientations, stimulate and push. Member States have the fiscal means and the overwhelming part of competences. But at the end of the day, the responsibility is collective. This is the hard lesson we learned in the course of this sovereign debt crisis.

We are still in a very difficult financial and economic situation, but we have the means and hands to get out of the tunnel. It will require hard work, a strong focus and the challenging adjustment to today's world: but we will get there.

Thank you.