EUROPEAN COMMISSION

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Speech by President Barroso: "Europe 2020: A blueprint for the Post-Crisis World"

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Thank you very much for your kind words of introduction.

Distinguished guests,

Ladies and gentleman,

Dear friends,

Let me first thank the Lisbon Council for the opportunity to address this forum for the third time. Our discussions are always thought provoking. Your invitation letter, which I received, struck me with one particular sentence. You said: "We must shift the rhetoric from uncertainty about the future to confidence, and convey a "can-do" attitude".

My message in relation to the theme of this year's event, "Restoring Confidence and Driving Growth", is that the attitude of the European Commission is not "can do" – but it is "have done, are doing and will continue doing".

It is the moment to discuss about confidence and hope. I believe that we have come through the worst of the crisis. Unfortunately, we are not yet out of it and we face the daunting task of completing what we have started as a comprehensive policy response.

Ladies and gentlemen,

Indeed we have done, are doing and will do a great deal; and I believe these actions will ultimately profoundly change the European Union. It is easy to think of these measures as being a direct response to the financial crisis. But in fact the vast majority have been required for many years already.

The economic crisis was triggered by events in the financial markets. But it also highlighted a chronic malaise: the erosion of external competitiveness and the latent internal competitive imbalances, in the European Union and especially in the euro area. Both left our Member States vulnerable to economic shocks this vulnerability came about in an ever changing world, with new competitors. An ageing population in Europe, increasing energy costs and the risk of high unemployment becoming systemic, all this add further complexity to an already very difficult context. These are new challenges, certainly, but I'm completely convinced that they also bring new opportunities.

Europe and our Member States must learn – urgently – to perform better if we are to compete effectively in global markets.

I do not want to be misunderstood. Competitiveness is not an end in itself. It is the means to drive prosperity, to sustain European living standards, European values, our societies, our natural environment, our way of life that we want to keep. It is precisely those European countries with the most effective social protection systems that remain among the most successful and competitive economies in the world, thanks to high productivity levels.

And this is the key issue- we cannot forget productivity and the competitiveness. The issue is not about more or less social. We need social commitment to a social market economy that's for sure, but we need to achieve these high levels of social protection we need higher productivity, higher competitiveness levels in Europe.

Within Europe we have some globally competitive economies, indeed some of the best in the world. Five of the top eight in the latest World Economic Forum Global Competitiveness Index are EU Member States and others although not EU Member States are also from the European space.

More broadly performance is very uneven from one Member State to another and there is a very long tail wagging the European economic dog. The 15th most competitive member state is in 41st place in the index and the least competitive over 50 places further down than this. And, inside the European Union our best performing Member States are twice as productive as the worst performing. This is a major issue, this imbalance in terms of competitiveness, I am not speaking about other kinds of imbalances, the imbalances in competitiveness among our Member States

That's why I've been saying Europe faces a moment of truth. Either we recognise that "business as usual" will consign us to a gradual decline or we take the bold and ambitious course of sustainable growth.

Ladies and gentlemen,

The drive for reforms to make our economies more competitive and our public finances sound and sustainable is part of our confidence-building efforts that are based on several strands. I insist on several strands, because sometimes in the public discourse it appears as if the European Union was only focused on the correction of deficits. And this is not true. This is, of course, part of the strategy, but our response is a holistic response that includes the repair of the financial sector, the repair of the public finances, structural reforms for competitiveness, targeted investment for growth and strengthening the economic governance for the European Union, especially the euro area.

These are parallel fields of work, mutually reinforcing - not mutually exclusive as some may think. All are being mobilised to achieve long term sustainable growth and employment.

Because the crisis has shown that some kinds of growth are not in our interest. The crisis showed that growth fuelled by debt is artificial growth. It is simply not sustainable. When considering the calls for financing growth through debt, one must also remember that countries at risk of losing or having lost market access, or paying prohibitive costs for their sovereign funding because of excessive deficits and debt burdens, simply do not have the luxury to choose.

Their only option is to restore sustainability to their public finances. If they don't, they will face rising borrowing costs with all their negative consequences for the real economy, for growth and employment and mainly for the most vulnerable in those societies, because as usual it will be the poorest that will pay the highest costs when there are high levels of debt.

Furthermore, if high debt levels are not reduced, they will become an even heavier burden on our economies, swallowing up more and more resources that could be otherwise channelled into productive investment and driver of growth such as education, research, network industries. This is particularly important in view of the impact of the ageing population. This also has to be weighed against the short-term costs of consolidation.

Our first goal was to ensure macroeconomic stability: this is a pre-condition for productive investment, growth and jobs creation. I believe that this has been broadly achieved. For example across the European Union government deficits have halved since 2009, so we are on the right track in this respect.

At the European Union level, we have also made great progress towards a safe and sound banking sector that serves the real economy's needs and that should also ensure fairness. The European Union leads the G20 in implementing such reforms.

But we must continue. For example, the difficulty to access to finance which many small and medium enterprises experience reflects, among other things, on-going deficiencies in the financial system which we are repairing. Such deficiencies produce a critical drag on our economic recovery and on our return to growth.

Furthermore, when bankers make mistakes it should not be taxpayers who pay the bill. And what a bill it is. To date 1.6 trillion Euro, which is almost 13% of Europe's GDP, has already been used to support the banking sector. And I'm not including all the guarantees, so can anyone really believe that it will be easy to get out of the crisis when around 13% of our GDP global in Europe has been used for the financial crisis?.

This is why we are breaking the link between bank losses and sovereign debt. The recapitalisation of banks by the ESM will be possible after the Single Supervisory Mechanism is in place, which should be in the second half of this year.

The EU has also provided crucial financial support for programme countries and put in place new instruments to underpin the common currency, the euro.

Measures to promote growth and get the most out of our Single Market have been given priority. European spending has been re-oriented towards growth-releasing investment. And the governance of the euro area has been strengthened to ensure better economic coordination.

As a result of all this, including of course the measures announced by the ECB, the markets are more stable and there are signs that confidence is starting to return. Long term spreads are down for Ireland, Portugal and Spain and we are starting to see capital returning to the European Union, including the most vulnerable countries, with positive net inflows in recent months.

European economies are also witnessing a certain rebalancing. The performance of the (current account) deficit countries is impressive. Ireland has decreased its deficit of 1.4% of GDP in 2008 to a projected surplus of 3.4% of GDP this year. It is amazing, it is such a short period. Portugal has reduced its deficit by 9 percentage points of GDP over the same period and we expect Spain to go from deficit to surplus this year driven by a real increase in exports: up 20% in the last two years. So it is not only, as some people say, because of the reduction in demand, it is also because of the real increase in exports that we can see in some of these countries.

On the side of the surplus countries, and we speak less about them, some rebalancing is also under way. We are starting to see wages rise in line with productivity. For example last year in Germany paid wages increased on average by almost 5%. So we are seeing some kind of rebalancing.

But we still have work to do: it takes long time and much effort to rebuild confidence once it has been destroyed. The situation remains fragile and the unemployment rates unacceptably high in many Member States. The challenge is not to be complacent, slacken off in our efforts or look to weaken or even ignore the rules. We have been down this path before and we have seen, and continue to see, the consequences of it.

Ladies and gentlemen,

As I said, we have developed a comprehensive approach to dealing with the economic challenges. It is the Europe 2020 agenda for sustainable, smart and inclusive growth. By setting common goals, our agenda for growth seeks to support reform and restore investment across the whole European area. It was endorsed by all 27 Member States but continues to need a broad support of all stakeholders, at all levels and across the Union, to be fully implemented. This is why I am particularly glad to be with you here. I always saw the Lisbon Council as a very important stakeholder in this enterprise and if I may say so, also ambassadors of our strategy and our approach.

Europe 2020 pools all our available tools to promote lasting competitiveness that would translate into growth and jobs; including trade policy and our Single Market agenda that remains our greatest asset when it comes to competitiveness - and there is yet much more to be had from it. It also aims at inspiring confidence and developing an economic governance system where complacency and imbalances of the past do not re-emerge.

Our enhanced system of economic policy coordination at the European level, including the European Semester with its Country-specific recommendations as well as the six-pack legislation and shortly the so-called two-pack, has addressed central lessons learned from the crisis.

This new institutional architecture does not mean that one and the same medicine is applied for all 17 Member States of the euro area or the 27 Member States in the European Union. On the contrary. The country specific recommendations reflect the diversity of the Member States, their starting positions, social models, traditions, risks and opportunities. Specific solutions are being applied on a case-by-case basis, demonstrating that Europe's ability to meet the competitive challenge increasingly depends on actions by Member States rather than regulation from Brussels.

Reforms in areas such as labour markets, pensions, public administration and education are mainly a national responsibility but will bring benefits across the Union and the euro area. An increased pooling of economic policy making becomes indispensable. The crisis has shown how dependent we are on the decisions (or non-decisions) of others. These affect us all both negatively and positively in the case of "good policies", especially in the context of a shared currency.

This requires stronger policy implementation at national level, in particular for euro area Member States and a better functioning of EMU as a consequence. This will contribute to a return of confidence and building a stronger base for sustaining European competitiveness, creating growth and avoiding the mistakes of the past. That promise must now be delivered through the full use and strict implementation of the new tools that are already in place.

A weakening in our resolve would be a betrayal of Europe's future and of the efforts which have been made across our Member States in the last few years, efforts and sacrifices being made by our citizens on a daily basis which are now beginning to bring results.

For Europeans, competitiveness can never be just about reducing the costs of products and services. It requires careful balancing within a complex mosaic of economic, social and political factors. It means hard work and often results in profound change. That is why it is an inherently political responsibility.

I am confident that the Spring European Council next week will confirm the commitment of the Heads of State and Governments to continue on this path.

Ladies and gentlemen,

This brings me onto our future agenda; our "will do" mentality, which inspires the Commission's Blueprint for a deep and genuine Economic and Monetary Union.

To overcome the crisis in a sustainable way and to restore confidence, we need indeed to give tangible proof of the willingness and capacity of the Europeans to move forward – together - in a decisive way through the strengthening of the architecture in the financial, fiscal, economic and also political domains. That is our Blueprint's ultimate goal.

We have provided our vision and principles for the future - some concrete and short-term, others more ambitious and long-term to support the deepening of the Economic and Monetary Union. This is indispensable for those countries with a shared currency. It is critically important that as more integration happens we keep the integrity of the Single Market and the European Union as a whole.

The credibility of the institutional and political construction supporting the EMU is at the core of the confidence issue. Investors need to know our intentions.

That is why we are going step by step to reinforce economic governance. In this process, seeing the next step is crucial. Banking union is at the forefront. With the agreement on the Single Supervisory Mechanism last December we have already achieved a lot. The next step is the Single Resolution Mechanism and the Commission intends to present a proposal before the summer.

We have also been working on some concrete short-term measures, such as a mechanism to better co-ordinate major economic reforms across Europe and a so-called "Convergence and Competitiveness Instrument" (CCI) that would combine specific contractual arrangements for reforms with Member States with a focused and targeted financial support.

This instrument represents the essence of our approach: discipline and responsibility go hand in hand with solidarity and convergence. We need both at European level. There are some in Europe that only speak about solidarity forgetting the need to show responsibility. Others always remind us about responsibility, forgetting the need to show solidarity. It is not a question of choosing between solidarity and responsibility; both are needed in a genuine Economic and Monetary Union.

This brings me to the social dimension of the EMU. European competitiveness and confidence-building also depends on Europe's people and societal well-being. And this is of course a major concern for us. EMU is not a project for the elites or for business, its ultimate goals is to benefit Europe as a whole. Where reform and adjustment is hitting some in our societies particularly hard, and I am thinking in particular of our youth, we need to act.

That is why in the recent budget negotiations the Commission fought to secure a large increase in funding for youth. Under the Erasmus programme more students will benefit from mobility opportunities. And a new Youth Employment Initiative will provide 6 billion euro in much-needed support for young people in regions with youth unemployment rates above 25%.

Last week, the Member States adopted the Commission proposal on the Youth Guarantee under which every young European should be guaranteed a job, further education, or work-focussed training at the latest four months after becoming unemployed.

Earlier this week, the Commission launched the Grand Coalition for Digital Jobs to respond to the twin challenge of a rise of unemployment and a shortage of specific skills. Working in partnership with business, industry associations, and Member States, we are already collecting pledges on new jobs, internships, training places, start-up funding, and free online university courses.

Ladies and gentlemen, let me conclude,

You are celebrating the 10th anniversary of the Lisbon Council.

10 years ago it was already clear that the world was changing at an ever accelerating rate.

The parallel fields of work that I mentioned before aim at transforming the challenges arising from globalisation into opportunities. Commitment to this agenda shows our responsibility to ensuring Europe's future and maintaining our European social model and the social market economy. It is this commitment and persistence that we will restore confidence and drive the growth which Europe needs so much.

Boosting and maintaining competitiveness requires a constant effort. It involves active choices and decisions by all stakeholders. It needs support. It needs leadership. I am sure I can always count on the Lisbon Council and its members.

Thank you for your kind attention.