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TWENTY-FIRST MEETING OF THE MACRO-ECONOMIC DIALOGUE AT POLITICAL LEVEL

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President Juncker, President Trichet, Commissioner Almunia, Ladies and Gentlemen,

The recession is now drawing to a close in Europe. Congratulations to you, members of the ECB, the Commission and the Council. You have been steering an effective European response that stabilized our economy in a short period of time. Joint forces on European level made us strong.

It is very special to refer to this European cooperation today: the 9th of November. Exactly 20 years ago, people from East and West were re-united. The Berlin Wall fell. And – as we realize now – the fundamentals of European integration were strengthened. A turning point in world history with enormous political and economical impact. It proved that democracy and a free market economy are vital to ensure prosperity.

And although the financial and economic crisis has brought great pain, it should not question the principle of a free market economy – to which we are deeply attached.

So let me state clearly: for me – as an entrepreneur and President of BUSINESSEUROPE – a market economy means open competition and rewarding sound risk-taking. Managers, shareholders and creditors must take responsibility for their actions. Companies with bad business models should be allowed to exit the market in an orderly manner.

Something is deeply wrong, if banks, or any other company, were to operate under the assumption that taxpayers will always come to the rescue if they fail. We need to confront this problem head on. Otherwise I fear it will be difficult to control reckless behaviors in the financial sector without imposing excessive regulation.



And the danger of over-regulation in the financial sector is significant: A multitude of new capital requirements will be imposed on financial institutions. All the proposals have their individual merits. But we have absolutely no idea of their overall impact on our economy.

Let me recall a simple fact: Companies in Europe channel about two thirds of their external financing through bank loans. In the US for instance it is just one third. This means, that the future shape of the banking sector and its regulatory environment will have much larger effects in Europe than in other places of the world.

I quote Jacques de Larosière in a recent Financial Times article: *“Capital ratios, if they are not well conceived, could substantially harm our economies. In designing and calibrating the new capital rules, regulators should take enough time to assess carefully their potential overall impact.”*

BUSINESSEUROPE fully subscribes to these concerns. Repeatedly we called for such impact assessment by European authorities.

For us an absolute priority is: access to affordable financing. Companies' investment in machinery and equipment is already down more than 20% since last year. We need to reverse this trend rapidly. Otherwise we will never get back on the former growth track of our economy.

Therefore interest rates will have to be maintained at a low level for a considerable period of time. Over the past months we could count on the ECB for doing that with its main policy instruments. I hope we can continue to do so.

We also count on European governments to commit to credible strategies to restore the health of public finances. Public indebtedness will increase to 80% of GDP next year. If nothing is done, it will continue to rise. This will put significant upward pressure on long-term interest rates, with the effect of crowding out private investment.

Restoring confidence in public finances requires clear commitments on “how” to stop deficits, and “when” to stop them. On timing, BUSINESSEUROPE agrees with the ECOFIN council conclusions: Consolidation should start no later than 2011 if the recovery proves to be self-sustained.

And what about the “how” to stop the deficits? We will not find it in higher taxation. Particularly higher taxation on labour and capital, will impose lasting damage on growth and job prospects.

No, the priority must be to reduce public spending and to rebuild the tax basis through growth-enhancing reforms. This implies new thinking about the effectiveness of public administration, social systems and tax structures.

The key word for the recovery will be “adaptability”. The current measures to preserve jobs, such as short-time arrangements, are useful. But they are temporary.



The urgency now is to prevent long-term unemployment by increasing mobility, skills and labour participation.

This can only be achieved through structural reforms and the implementation of flexicurity. This principle reconciles flexibility and security needs of employers and workers. It facilitates the creation of new jobs, supports people during transitions, and develops skills through training. Unlike some people tell us, flexicurity is not a “fair weather policy”. Quite the contrary: It shows its full potential especially in times of crisis.

Europe’s competitiveness is of greatest importance for our economic future. Or to put it in plain words: it is about our capacity to export and attract investment.

In this regard, I am concerned about recent exchange rate developments. The euro is steadily appreciating against the dollar and other major currencies. An overvalued euro is not good news for growth in Europe and is inconsistent the commitments of G20 countries for an orderly resolution of global imbalances.

We must insist that our partners honour their commitments. This means in particular that US authorities make real their pledge for a strong dollar policy and that Chinese authorities introduce more flexibility in their exchange rate system.

We hope that you, President Juncker, President Trichet and Commissioner Almunia, will continue to push this message. In particular during your visit to Beijing in December.

Thank you for your attention!

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