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EUROPE AT A CROSSROADS: REFORM OR DECLINE

ADDRESS BY JÜRGEN R. THUMANN
PRESIDENT OF BUSINESSEUROPE

Dear President,
Distinguished guests,
Ladies and Gentlemen,

First of all "MUCHAS GRACIAS" to you, President Rodríguez García and to the Wall Street Journal for this invitation.

Your forum has become a prominent place for political, economic and social discussions in Spain. It is an honour and a pleasure for the members of the BUSINESSEUROPE delegation to participate in your luncheon debate today.

Thank you, Gerardo, for your nice introductory words. BUSINESSEUROPE represents more than 20 million companies in 34 European countries. And tomorrow, the Presidents of our member federations will meet at CEOE headquarters at the invitation of Gerardo Díaz Ferrán.

It will not be an ordinary meeting. It cannot be - because of the extraordinary circumstances facing Europe and its companies.

Europe, ladies and gentlemen, is truly at a crossroads.

The report of the reflection group on the future of Europe chaired by Mr Felipe Gonzalez puts it very clearly: we can choose between reform or decline.

In 2008 and 2009 Europe was faced with an unprecedented global financial and economic crisis. Just when we started to recover, the public debt crisis started. And if we are not able to put our house in order rapidly, we could be faced with a monetary crisis and severe social problems.

In less than two years, many of the jobs created over the past decade have been lost. The path to pre-crisis growth and employment level will be long and difficult.

The situation is serious. But it is not desperate!

Next week, BUSINESSEUROPE will publish its economic forecasts. I cannot reveal all the details. But what I can tell you is that we foresee EU GDP to grow by 1.1% in 2010 and 1.6% in 2011.

Of course, figures vary from country to country. Germany, which is set to grow by 1.8% next year, should remain a factor for dynamism. For Spain, the consequences of the crisis will be longer-lasting. GDP is expected to decrease by 0.8% this year but a positive growth of 0.3% is forecasted for 2011.

On the labour market front, news is generally better than previously expected. The most favourable situation is in Austria. There we expect unemployment to stabilise at 5.3% this year. Followed by the Netherlands with 6.5% and Germany, 7.6%. Unfortunately, the stabilisation of unemployment in Spain above 19% is not good news.

So, what lessons can we draw from these figures? Firstly, despite the difficulties, European companies have been able to participate in the revival in global trade and industrial activity. Companies are not the problem. They are the solution.

Furthermore, the differences in national performances clearly demonstrate that implementing sound policies in good times, helps to face bad economic weather.

The experience of my home country shows that competitiveness can be restored:

- if wage moderation prevails
- if investment in innovation is encouraged
- and labour market and social security reforms are implemented.

Ladies and Gentlemen, government and central bank interventions played a crucial role in alleviating the financial, economic and public debt crisis. BUSINESSEUROPE fully recognises this. What they did was right and necessary.

But state intervention has reached its limits. The deterioration of public finances has become a cause of financial instability. And the massive stabilisation programme for the euro area has not yet restored confidence.

Let's not fool ourselves. With the agreement reached by Heads of State and Government in the night of May 9th we only buy some time. Major adjustments will have to take place to address the real reasons behind the ongoing market scepticism: Our bleak growth prospects and the weak governance of the Eurozone.

The crisis clearly showed the limits of the current Stability and Growth Pact. The shortcomings have been already addressed by BUSINESSEUROPE in 2007. A single currency requires solidarity between its members! But if the real causes of the problem are not addressed, solidarity will not last!

For years, financial markets received contradictory signals from politicians. They heard politicians pay lip service to structural reforms in Brussels and saw them fail implementing the solutions agreed upon in their home countries. In addition, rules have been openly ignored - including by Germany and France.

It is time to put higher pressure on those who do not deliver on the engagements taken collectively. And I am convinced, we can deliver this within existing Treaty rules:

- If we give new auditing powers to Eurostat.
- If we transpose the Stability and Growth Pact rules into national law.
- Broaden the concept of fiscal sustainability.
- Reinforce the surveillance of national economic policies.
- If we impose gradual penalties for Member States which fail to comply,
- and work on a system to address sovereign debt crisis in due course.

I will not go into all the details. However, such measures like the German debt brake, offers a strong commitment to discipline.

So, why are markets more inclined to finance US deficits than Europeans? Because US growth prospects are brighter: 3% versus 1%!

To protect European living standards, we need to combine at least 2% growth with 3% surplus in government primary balance. A European economy growing at 2% - instead of 1% - amounts to 6.5 million additional jobs and a public debt consolidation of 450 billion euros by 2015 – or 7% of GDP.

Major stumbling blocks on the path to a sustained economic recovery must be addressed.

Such as the financial markets. Despite the promises made by the G20, financial markets are not fixed yet. This should be done urgently and without unnecessary restrictions on companies' access to finance. We will not enhance growth and employment if we stifle entrepreneurship and investment!

However the biggest "stumbling block", the biggest challenge, is to combine fiscal discipline and growth. In March, BUSINESSEUROPE presented a comprehensive agenda. It combines an exit strategy to put a brake on public deficits with an entry strategy to enhance growth.

To put a brake on public deficits, we recommend:

- Better fiscal rules and institutions.
- Cost-cutting measures.
- More efficient public services.
- And social security and labour market reforms.

To enhance growth, we highlight five key areas:

- Ambitious flexicurity reforms.
- More and better targeted efforts in innovation.
- Well directed infrastructure investment.
- As well as growth-enhancing tax reforms.
- Better regulation to reduce red tape.

So my answer to our crossroads position is clear: reform!! This is the route we want Europe to pursue when implementing the Europe 2020 strategy.

And I have no doubt that Spain can also find its way back to growth and employment if it applies these measures consequently.

In February, Gerardo Díaz Ferrán and I met the President of the Spanish government, Mr Zapatero. This was just a few days after the publication of pensions and labour market reform plans in Spain. We assured President Zapatero that we, as employers, will facilitate these reforms. And that we will support his government to communicate the necessity of these reforms in public.

Meanwhile the Spanish parliament has passed a bold austerity package aimed at saving 15 billion euros by 2011. We recognise the magnitude of the sacrifices they imply for workers, pensioners and citizens. I sincerely hope that the Spanish trade unions will understand that these measures are indispensable to put Spain back on the road to sound economic growth and employment. The recent agreement on wage moderation goes in the right direction.

On European level, BUSINESSEUROPE and the trade unions just successfully agreed a joint recommendation on the EU 2020 strategy.

It is a balanced text, which urges policy-makers to improve governance in the European Union and focus EU policies on four priorities:

- First, combining exit and entry strategies – to put a brake on public deficits and to enhance growth.
- Second, promoting education, research and innovation.
- Third, striking the right balance between measures to address the employment impact of the crisis and labour market reforms.
- And fourth, putting in place a supportive public environment with affordable public services.

Ladies and Gentlemen, the EU 2020 strategy rightly aims at sustainable growth. It also re-iterates Europe's climate and energy targets.

European companies have impressive track records for reducing their emissions. Energy-intensive industries have already improved their energy efficiency. By more than 20% between 1990 and 2007. More important, innovative European products enable emission reductions across the world.

BUSINESSEUROPE's member companies are committed to achieving the EU's 2020 climate and energy targets. But climate change can only be tackled globally! Therefore working towards the conclusion of a comprehensive international climate change agreement remains indispensable.

The failure of the Copenhagen conference proved that Europe's policy strategy to lead by example through unilateral emission reduction does not work.

Rather than focusing the EU climate policy discussion on new numerical targets, Europe should now concentrate on creating a long-term framework for a sustainable, secure and cost-efficient energy future. For that we need a credible and comprehensive European energy policy for the 21st century which takes every energy source into account, including nuclear.

One thing is clear: The crisis has not made it easier for European companies to achieve higher emission reduction targets. On the contrary. SMEs in particular today lack capital to invest in costly new technologies.

Europe needs a strong and diversified industrial base. It is not helpful to divide industry artificially into "green" and other sectors. Wind turbines need steel and fibreglass. Energy-efficient houses need glass and chemical products. And energy efficiency is a key element in the low-carbon equation.

European companies are world leader in so-called "green" technology. But they are and have to be much more than that.

Ladies and gentlemen, Europe is at a crossroads. The path of reforms is hard and bumpy – but it is the only way leading to the growth we desperately need! Only then we will be able to create more and better jobs to maintain our living standards – for the next generations too! And I can assure you that European business will do its utmost to get Europe on track.

This is the message that we will convey to President Zapatero tomorrow in our meeting at the Palacio de La Moncloa.

The European project has brought tremendous benefits for companies and citizens alike. The Single Market and the Euro are invaluable economic and social assets. These historic achievements we must cherish - and fight for!

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