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SPEECH

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TWENTY-FOURTH MEETING OF THE MACRO-ECONOMIC DIALOGUE AT POLITICAL LEVEL - BRUSSELS, 14 FEBRUARY 2011

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Dear Mr Matolcsy, President Juncker, President Trichet,
Commissioner Rehn, Ladies and Gentlemen,

Thank you very much.

First, we would like to express our support to the initiative of enhancing the role of the Macroeconomic Dialogue in the present times. The current debate on economic governance is conducive to that and social partners will have a role to play in the new framework. This is particularly relevant when it comes to discussions on competitiveness, labour market, wage policies and social issues.

Let me then express some views on the three topics which are obviously very pertinent.

1. Economic Situation and Fiscal Sustainability

The recovery in the EU has so far proved stronger than expected, despite uncertainty still running high in financial and sovereign debt markets.

BUSINESSEUROPE forecasts GDP growth to reach almost 2% this year.

Global growth remains sustained and the recovery is gradually broadening to domestic demand, with investments and employment regaining positive momentum.

But the outlook is uneven, with large country divergences when it comes to growth and employment.

For countries having accumulated large debt and competitiveness imbalances before the crisis, this implies important challenges.

How to respond to these challenges will vary from country to country. But there should be one common goal: be able to combine a return to fiscal sustainability and higher growth in the years to come.

We are aware of the formidable task ahead. To put public debt on a downward trend by 2014, the EU needs to collectively increase its growth potential above 2%. To achieve this: double growth potential in all countries and ensure large government primary surpluses at the same time.

This can only be achieved through a renewed drive for growth and competitiveness combined with smart but resolute fiscal consolidation.

These two objectives are mutually reinforcing. Fiscal discipline provides confidence to households and investors. Growth and jobs are the only base for sustainable tax revenues for governments.

By smart fiscal consolidation, I mean a credible commitment

- to cap public debt -including by introducing debt brake in national laws -,
- to cut public spending without sacrificing growth enhancing investments
- to resist tax increases, particularly on labour and capital.

2. Competitive Adjustment Channels

The crisis has clearly demonstrated to us that competitiveness adjustments are not functioning properly or quickly enough. This is particularly true in the euro area.

This is due to a combination of labour and product market rigidities. This is due to inflexible wage-setting mechanisms, this is due to poor fiscal management in good times, this is due to lax prudential rules and this is due to unpredictable financial markets.

Wage policies are of course of critical importance for social partners because this is their area of competence.
Wage setting is not a European competence. That being said, it is in the common interest of social partners at national level to improve wage flexibility If not, employment will be the main variable of adjustment. Automatic indexation mechanisms that act as inflation transmission belts is counterproductive.

Improving competitiveness must be at the centre of the economic and social policies.

The principle of a Competitiveness Pact as proposed by Angela Merkel is positive.

This Competitiveness Pact should help, and obviously not hinder, two key decisions to be taken in coming months.

First, an ambitious legislative package on economic governance to be agreed upon by the European Parliament and the Council.

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We met with the 6 EP Rapporteurs dealing with this dossier. We expressed support in their call to reinforce the role of the European Commission in both fiscal and macroeconomic surveillance.

We need strong and clear enforcement rules. The room for bargaining in the Council should be limited. The uses of sanctions should create real incentives for political responsibility.

Second, decisions must be taken on crisis management instruments, introducing a scheme that allow for orderly debt restructuring.

3. Annual Growth Survey

A final point on the Annual Growth Survey as requested:

The main message is the Commission's warning that current reform efforts are insufficient in most parts of the EU.

Most governments have failed to develop comprehensive growth strategies that are attuned with the huge challenges ahead.

The Spring European Council of 24-25 March will bring this message forward. The Council must urge all Member States to reform and double their growth potential to consolidate this recovery.

The Commission's focus on job creation and labour market reforms, reemphasising the importance of flexicurity principles in the current circumstances are very welcome.

Conclusion

The European Union is at a crossroad.

The challenge ahead of us is immense, and a reform agenda combining fiscal sustainability and growth is only making slow progress. This is time for political responsibility.

We, as social partners, play a role in this regard. We are prepared to engage into a constructive dialogue with trade unions. The long-term benefits of reforms for growth, jobs and therefore prosperity, fiscal and financial stability should be our goal.