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## **Growth and Stability: Which One Comes First?**

Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort

"Austerity, economic governance reforms and social policies in Europe"

Conference organised by the European Trade Union Institute (ETUI) and the European Federation of Public Services Unions (EPSU)

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Ladies and Gentlemen,

Europe is at crossroads. The decisions it is called to make in the coming months will shape its capability to lead in the global political and economic scene over the next decades. But in the same time these decisions will show which kind of future Europe reserves for its citizens.

For the time being, the economic crisis is persisting for sure, despite some initial optimistic forecasts. Every week we are discovering a new threat, every month another piece of our system is causing concern.

And yet, everything seemed to work fine for many decades; since the end of the Second World War, we experienced a period of growth and hope. And then, it took less than a decade for the whole establishment to become destabilised.

Ladies and Gentlemen,

I do not find it hard to say that Europe was not prepared to face the greatest economic crisis of our time. We had a common currency, but not the political and institutional mechanisms to support it in the marketplace. An awful lot had to be done in no time.

It is fair to say that the Commission tried to do its part. It identified the gaps in the current economic governance which the financial and economic crisis had fully exposed. It put forward a comprehensive package of reforms to strengthen economic governance in the EU. It addressed the failures of the financial system by proposing significant reforms in the way the financial markets operate.

The Commission (together with the ECB) organised the salvation of two tottering national economies. It set in motion unprecedented forms of financial stability interventions that kept the Euro alive and secured stability in the Euro area.

The Commission reacted to restore stability and promote growth and jobs. Yet, my personal opinion – which I flagged at the College discussions – is that we have been too shy with the "growth and jobs" part of our resolve. While no one could deny the need for fiscal consolidation, one could have aimed at a better balance between austerity and growth. Economic growth, investment and employment in Europe could have been taken on a par with the expenditure control logic, which is being used as the only privileged tool for the consolidation of the European economies.

Allow me to make two specific points in this regard.

### **1) Austerity versus Growth**

To address the crisis, first we have to understand it. Is it only a debt crisis? The answer is "no". Does Europe have more debt imbalances than the US? Yet too much emphasis is placed on the debt problem.

Consolidation is not a sufficient answer if it's not coupled with economic growth. And it is a distortive answer if it leads to social degradation.

What we actually need is an alternative economic policy agenda. An agenda that will allow the exit from the crisis in a socially fair way.

Let's dare discuss new ideas, which until now remain taboos.

- We need to address imbalances throughout Europe in a symmetrical way. Public deficits are not the only source of macro-economic imbalance. Budget surpluses are also imbalances that need to be corrected. The interdependence of national economies works in all directions.

- We need to find new ways to finance growth and employment. We need to examine how to broaden our own-resource base. At present, the discussion about bonds, financial transaction taxes, bank levies, or green taxes is open. This is an encouraging development which I can only support.
- Perhaps there exists a different approach to the problem of debt. If, for instance, the banks were ready to accept their share of responsibility in a situation of restructuring of sovereign debt, fiscal consolidation could be pursued in a socially more acceptable way.
- Or, governments need more fiscal union, a fully-fledged economic union, with harmonised taxes, coordinated labour laws and pension systems – a common competitiveness policy in other words. Fair enough – provided that they are ready to accept that half the euro zone countries will align on a strict model of fiscal discipline in exchange of having their debts relieved by the other half.
- Final question: Is fiscal consolidation the right and only path to go for all countries? No, it is not. Fiscal consolidation has to be pursued where it is strictly necessary and only for as long as it is necessary.

All these are political dilemmas which are pressing for an answer. And to answer them we need a Europe of full responsibility. We need more Europe, not less Europe, nor a Europe that is split. So, a clear political pact is needed now more than ever to get out of the crisis.

## **2) The impact on employment**

Which brings me to my second point: the impact of austerity policies on employment.

The background is disappointing. More and more European workers are in precarious jobs only: 13% are now on fixed-term contracts, 23 million are in bogus self-employment, with no contractual cover and little social protection. With non-standard work contracts proliferating, more than 16 million Europeans unemployed and 70 million classed as at risk of poverty, insecurity has become a pervasive feature of Europe's labour market.

Employment is crucial for our future. The two-step approach "first consolidation, then job-creation" may not work out in the long term. We need to care about creating jobs now, because growth alone won't bring new jobs automatically. An IMF study showed that a 2.5% growth rate is just enough to maintain current employment, let alone to create new.

So, in the absence of a prospect of high growth rates, we will have to intervene. Not only by relaxing labour laws and introducing employment flexibility. Public spending cuts can be more selective and spare the transfers to the vulnerable population groups as much as possible. On the revenue side, raised tax should not only serve to reduce deficits and pay interests, but to support recovery and job creation. We should support employment actively, through tax incentives and monetary or fiscal policy that stimulates job-creation.

- To do that, we have to stop addressing the labour issues negatively, as a burden to recovery.

**Ladies and gentlemen,**

What we are seeing now is probably not the definitive response to the economic crisis. We can add more logic to the “crisis exit” so that it contributes to preserve Europe’s hopes for growth and recovery. In any case, we need long-term vision for our citizens, not a short-term reaction to please financial markets.

Europe is a political and social project – it has never been and can never be solely a market. It is and must remain a project for peace, democracy, economic growth – and for solidarity among nations and among citizens.