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## **Europe at a crossroads**

**How the EU's efforts to deal with the crisis can consolidate its economic and political integration**

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Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort

Speech at Deree College

**Athens, 31 March 2011**

Ladies and Gentlemen,

It is a pleasure for me to be here. I would like to thank you for giving me the opportunity to share with you the European Commission's perspective on a subject of utmost importance: the economic crisis and the European Union's exit strategy.

I would like to highlight two main points: First, the crisis had a corrective effect on the trajectory of the European integration. It has shaken up our system of governance, brought to surface structural deficiencies and obliged the EU to rethink its ways.

Second, the exit strategy requires a dynamic, not a static, response. The first reaction has been too simplistic: consolidation of public finances through fiscal discipline and austerity measures. But now it is about time to move towards a more elaborate scenario: we need to lay down the conditions for long term growth and job creation.

Last week, European Heads of State and Government gathered at the European Council to address issues such as the tragedy in Japan, the international and humanitarian crisis in Libya and of the course the economic recovery and the Pact for the Euro.

It is striking to see how nowadays all the issues that matter to citizens are discussed – and most often decided – in the Brussels arena. This was not imaginable when our country joined the European Union. It was not imaginable even before the advent of the economic crisis. This crisis gave the European edifice a load of problems, but also it offered to it a great deal of opportunities.

It is therefore legitimate to ask ourselves this question: is the economic crisis – and our efforts and sacrifices to get over it – an opportunity to build a better future, for Europe, for our country, for our society?

I encourage everybody to answer positively to this question. With one condition: Whatever we're doing to come out of the crisis, it has to make sense to our society. It has not to benefit the few; and it has not to be guided by short-sighted attempts to please the markets.

Dear friends,

Allow me to go back to the basics. The European Union was built upon a model of economic governance based on two pillars: interest rates stability and budgetary discipline. The achievement of full employment or the improvement of living conditions of the citizens were not among the objectives of the original model. As a result, for years, there was nobody within the European Union responsible for defending the ultimate goal of its very creation: the economic prosperity of the citizens. The so called "Stability and Growth Pact" was just a stability pact. Growth was absent despite the announcements and statements to the contrary.

For years, we have been experiencing the following paradox: We lived somewhere between an economic Europe which is deprived of political power, and national governments which are deprived of economic powers. In other words, we have been living in the absence of a European government.

This substantial gap of governance came under the spotlight during the hardest economic crisis that hit the European Union since its inception. This gap has now to be filled.

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 European Commission tried to do its part. It identified the faults 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 organised and coordinated the bail out of two national economies of the eurozone. It set in motion unprecedented forms of financial stability interventions that kept the Euro alive and secured stability in the Euro area.

Last week, a new Pact for the Euro Plus was agreed at the highest level of political legitimacy in the EU: the European Summit. It will further strengthen the economic pillar of the Union through better economic coordination. Its objective is to improve productivity of the European economy as a whole. Member States will not be left on their own in this quest of economic effectiveness. A permanent European Stability Mechanism was set up, effective as of 2013, which will give financial breathing space to Member States that are facing difficulties in consolidating their public finances.

The Commission has done a lot to steer the decisions of the Summit in this direction. And it has still a lot to do to promote even further the ingredients of prosperity: jobs and economic growth. Of course there is a big public discussion on the main dilemma: Austerity versus growth. Which one comes first? Let me give you some remarks in relation to this.

To address the crisis, first we have to understand it. Is it only a debt crisis? The answer is "No". Therefore, emphasis cannot be placed on the public debt problem only.

Of course there are countries where consolidation is absolutely indispensable. For example in Greece we have to take up our responsibilities. I would like to be very blunt:

Greece is a special case. For decades all the governments spent irresponsibly. Now the situation in Greece is difficult at present and will be so for the foreseeable future – that is undeniable. But the reviews conducted by the European Commission, the IMF and the European Central Bank have all concluded that we have put ourselves in a credible path towards fiscal improvement. Fiscal discipline in Greece is necessary and, very rightly so, it has to be accompanied by a thorough programme of structural reforms. These reforms have to be delivered not just because of the troika memorandum, and the demands of our lenders. These reforms are our only way out from the crisis. They will require sacrifices, sometimes painful; they will unsettle the status quo of many; they will be received with suspicion and hostility. They will make us rethink the way we have functioned so far as a state, as political parties, as a society, even as families. But they will pay out if we choose to embark on them with responsibility and determination.

But of course other European countries don't have the same problems at all. Some of them have surpluses. Fiscal consolidation cannot be a one size fits all solution.

Fiscal consolidation has to be balanced. It has to be coupled with economic growth, for otherwise it risks leading to social degradation.

So what the Commission is actually exploring is an alternative economic policy agenda. What I am trying to contribute to the on-going debate, is an agenda that will enable us to exit from the crisis in a socially fair way.

In other words, we should dare discuss new ideas, which until now have remained taboos.

- We need a new economic and political Europe to give full, quality employment the same priority as sound public finances.

- We need to find new ways to finance growth and employment. Thanks to the Commission's proposals, the discussion about euro bonds, financial transaction taxes, bank levies, or green taxes is now open. A few months ago this was taboo.
- A financial transaction tax, a crackdown on tax evasion and a fair income tax system will help us share the burdens fairly.
- We need a flexible and progressive strategy to consolidate public finances, while continuing to fund policies such as health, social protection and education and investing in infrastructure and research.
- We need a different approach to manage the problem of public debt and cut borrowing costs. The creation of the European Stability Mechanism is only a first step.
- We need more economic union, with harmonised taxes, coordinated labour laws and pension systems, provided that it is accompanied by more solidarity among nations.
- Finally we need an agenda to make this the last crisis of its kind. We need to armour ourselves with the right balance of regulation to prevent things going out of control again in the future. And we need a wealth redistribution agenda to ensure fairness and economic stability for the long term.

All these are political demands 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 to get out of the crisis is needed now more than ever. And last week's Summit, and those which will follow – because let's not forget that we are in an evolutionary context – will hopefully bring more unity, more solidarity, more maturity and above all more wisdom to our European adventure.

This brings me to my second comment: what is the impact of our exit strategy on employment?

The background is disappointing. More and more European workers are in precarious jobs: 13% are now on fixed-term contracts, 23 million 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. I have always defended that the two-step approach "consolidation first, job-creation later" cannot work out in the long term. My personal conviction is that we have to care about creating jobs now. 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 steady high growth rates of our economies, the new European governance will have to intervene. Not only by relaxing labour laws and introducing employment flexibility. Growth-enhancing structural reforms will have to be pursued actively so as to make work more attractive, to help the unemployed get back to work, to attract private capital to finance growth, to boost Research, Development and innovation, to invest in education and training.

On the revenue side, taxes should not only serve to reduce deficits and pay interests, but to support recovery and job creation. We should support employment in an interventionist way, 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. Recovery should lead to prosperity, and this goes through the creation of full employment for our citizens.

Ladies and gentlemen,

Through a continuous effort, day after day, week after week, the Commission is trying to shift emphasis towards "growth and jobs", as part of our response to the economic crisis. It is not an easy task. But at least we try.

To be successful though, we have to change the attitudes of those who insist that the exit from the crisis is only a question of monetary strategy and fiscal policy. To strike the right balance between fiscal consolidation and the need to preserve and create jobs, is not an easy task. Fiscal consolidation is an indispensable condition for stabilisation, and employment is an indispensable ingredient for long term prosperity. We have to combine them both. So we need to continue our efforts so as to establish that economic growth, investment and employment are indeed the right tools which will help the European economies to come out of the current crisis.

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-sighted 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.

Thank you.