SPEECH/10/257

Olli Rehn

European Commissioner for Economic and Monetary Policy

EU Strategies for a Post-Crisis World: Enhancing Growth through Smart Consolidation and Structural Reforms

Brussels Economic Forum

Brussels, 25 May 2010

Ladies and Gentlemen,

It is my great pleasure to welcome you to this eleventh edition of the Brussels Economic Forum. Since the Forum was set up in 2000, it has become one of Europe's key platforms for economic policy debate.

I am sure again this year our Forum will provide an excellent opportunity to exchange views among people with extensive experience and intensive insights in economic analysis and policy making. Thus, I am particularly delighted to welcome President Herman van Rompuy, who will in a moment give you the opening key-note address of the forum.

The over-arching theme of this year's forum is “Strategies for a Post-Crisis World: Enhancing European Growth”. Some may think this title is hopelessly out of touch of the current crisis mood, as in the long-run – i.e. post-crisis! – we are all famously supposed to be dead.

But let me tell you that the title is indeed a very conscious choice. Please take it as a sign of self-confidence: there will be the long-run, there will be a post-crisis – and we need a concrete vision and bold action to get to the post-crisis world and shape it. That's what this Forum is about.

Let me briefly set the scene for you to the key themes of the Forum.

In the year that has passed since our previous Forum in May last year, we have seen the European economy recover from its deepest recession ever. As our recent spring forecast points out, the economic recovery is now in progress, even though it is still rather modest and fragile.

While massive fiscal stimulus was necessary, the crisis has left us a legacy of high levels of deficits and debt. In combination of speculative short-selling, this has caused turbulence in the sovereign debt markets.

The critical question is whether the real-economic recovery can sustain the renewed financial turbulence. That's what we have recently been working for. Safeguarding financial stability in the euro area has required exceptional measures, such as the creation of a European Financial Stabilisation Mechanism, a backstop of up to 500 billion euro. But we are not out of the woods yet, and continued vigilance is needed.

Beyond the immediate fire-fighting, we need now to focus on creating foundations for sustainable, smart and inclusive economic growth. In this effort, we face three broad and tough policy challenges:

First, we must get the fiscal exit strategy right. The withdrawal of the counter-cyclical fiscal stimulus needs to be accompanied by substantial fiscal consolidation to reverse the adverse trends in public debt. Recently, several EU Member States, for instance Spain and Portugal, have presented significant new measures of fiscal consolidation.

We should aim at smart consolidation, which calls for a coordinated differentiation among the member states. While accelerated fiscal consolidation is the immediate priority for the countries with no or little fiscal space, others with better fiscal space can maintain less restrictive stances in the short-term, for the sake of growth and jobs in Europe.

Second, simultaneously with fiscal consolidation, we have to take structural measures that will lift our potential output growth. In my view, the big risk is that once the recovery gets more robust, we sit idly in self-complacency and forget the structural reforms. That would lead us to a sluggish recovery – or even a lost decade. Sustainable recovery will call for much more than that.

Failing this, our potential output would permanently remain below the path considered possible before the crisis. This is a very real risk, as low investment activity and an increase in structural unemployment have already lowered the growth potential in the coming years.

To address our mid-to-long-term challenges, we need to implement structural reforms that will not only cover the lost ground, but permanently increase our productivity growth and capacity to create jobs.

We have done some simulation, using our macroeconomic model, on the impact of coordinated structural reforms in the EU.

If we can phase in ambitious structural reforms in the coming 5 years, we have a potential for an over 2 percent annual growth rate in the coming decade. That could create over 10 million jobs and take unemployment down to around 3 per cent by the end of the decade.

Meanwhile, with no reforms, Europe would stagnate, with the average output growth at best at around 1.5 %, and with a level of unemployment, even after cyclical recovery, at 7-8 % at the end of the period.

While subject to normal uncertainty of long-term projection, the numbers suggest the order of magnitude of the costs of a non-reforming Europe.

The result, in the case of no reforms, would be an over 6 % lower level of GDP and 4½ % higher level of unemployment at the end of the decade. This would erode the foundations of our social market economy and drain the resources to take care of the people in need of support.

What are the reforms we are talking about? They are nothing new, while the precise content, of course, vary from a member state to member state. They include making the most of our single market, especially in services; making it attractive for people to move from inactivity to activity and from low-productivity jobs to higher productivity jobs; making the tax and benefit systems more conducive for employment growth; making more focused investments in knowledge and innovation; simplifying the regulatory environment for enterprises to grow, etc.

The issue is not primarily what should be done. It is about the political skill and stamina to build a societal consensus on the necessary reforms.

Thirdly, we must invest in the low-carbon economy and green growth. It is better to be ahead of the curve in striving for a smart and green economic transformation. With the rising trend in global demand for fossil fuels, this is very much in the enlightened self-interest of Europe.

In my view we can meet these challenges only by making a step change in our economic policies. Marginal adjustments are not enough.

The Commission has launched the Europe 2020 strategy to modernise the European model of social market economy and to achieve sustainable growth. It was endorsed by the European Council in March.

To succeed with this strategy, we need to introduce a truly European dimension to economic policy making in Europe.

This is why the Commission recently presented an ambitious set of proposals to reinforce economic governance in Europe. We want to strengthen preventive budgetary surveillance, to address macro-economic imbalances and to set up a permanent and robust framework for crisis management. I am glad the Commission’s proposals received broad support in the Task Force that President van Rompuy is leading.

In the E.M.U., it is indeed the high time to fill the E with life!

Ladies and Gentlemen,

I am certain that, based on these strategic choices and effective EU coordination, a virtuous circle of sustainable growth, healthy public finances and a return to high employment is within our reach.

Open and substantive debate can do a lot to facilitate these goals. I look forward to such a debate over the next two days.

Your contributions during this Forum will be highly appreciated, as they certainly will help shape our strategies for a Post-Crisis World.

While passing the floor to President Herman van Rompuy, who is most welcome, let me wish you an inspiring Brussels Economic Forum 2010.