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"GROWING OURSELVES OUT OF THE CRISIS"

Opening speech at the European Business Summit by President of the European Council Herman Van Rompuy

It is a pleasure to speak at this European Business Summit. A platform for ex-change, but also for change *tout court*. And Europe needs to change.

Raising public awareness of the stakes will be key to our success. We have to adapt our socio-economic models to a rapidly changing world, while bringing people and public opinions on board. Election results and opinions polls across Europe show this is a huge political challenge.

As active businessmen, who experience these changes firsthand, you have a vital role to play – feeding your message into the public debates in your own countries and societies.

The objective is clear and shared by all: Europe must remain this very attractive continent in which to live and work, create wealth and spend it, for all citizens. And for that we need growth, 'quality' growth. And an environment of social dialogue, cohesion and fairness.

Your needs as businesses are also clear. Summarising, I see four. You need ideas, an innovative environment, especially in industry. You need people, with all sorts of skills and abilities. You need capital, to finance your investments. You also need markets, to sell and to source.

P R E S S

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These “four fronts” determine the conditions for growth and jobs. And they are at the heart of Europe's growth strategy. Innovation and research, bank credit and venture capital, labour markets, international trade: despite the crisis, we have been pushing forward on all these fronts, and we will carry on doing so!

But there is another key need, number five. When all goes well, it is invisible and therefore easily forgotten, but still of critical importance: stability. Political, social, economic and financial stability. It is a precondition for the four others, the basis of confidence and a core function of Government. You cannot secure it alone.

Since 2008 Europe has faced two major crises – the banking crisis and the sovereign debt crisis. They could have had incredibly disruptive effects. But these effects were contained, because public authorities stepped in, and are still stepping in, to provide economic stability. Helping out banks and regulating them more effectively, helping out euro area countries in financial trouble, helping employers and workers to bridge the period of tension. In short, absorbing the shocks.

This vital effort for stability has overshadowed, in the public eye, the ongoing work on growth. Today, the growth debate is taking centre stage all over Europe, and rightly so. In fact, it was never absent, simply less visible. – It was even the main theme of the very first European Council I convened in February 2010. A year later, we took decisions on innovation and energy. This year, we already devoted two European Council meetings to growth and jobs.

I should like to make three further short comments to set the scene.

First remark: on average, the recession Europe is facing today is mild, but with large differences between Member States. There is no overall risk of a deflationist spiral. The Eurozone's GDP is now projected to contract by 0.3 percent in 2012, and return to growth next year. A number of European economies are growing, outside the Eurozone but also within it. Price stability – a condition for economic and political confidence – has been maintained.

Second remark: we must distinguish the structural from the exceptional. The financial and debt crisis were (and are) exceptional. They sparked real hardship in certain countries. Think of the millions of unemployed men and women in Greece or Spain. But the crisis also revealed structural challenges that predate it. They concern us all. Systemic challenges, both for the Economic and Monetary Union and for individual countries. The Member States which did most to improve their competitiveness (such as Germany a decade ago, the Netherlands and Sweden two decades ago), withstood the crisis more easily than others.

Third remark: today, macro-economic policy margins are limited. During the crisis, the fiscal and monetary instruments were fully mobilised. Lately, the European Central Bank has stretched its instruments close to the limits. Debt and deficit levels leave hardly any room for fiscal stimulus, even if some countries have a margin to let automatic stabilisers play.

It strikes me that we sometimes face schizophrenic demands, with people telling us one day that a lack of fiscal discipline undermines market confidence, and the next day that fiscal consolidation kills growth!

Let me put it clearly: fiscal consolidation is not an objective in itself, it is a prerequisite for sustainable growth. Structural reforms remain the main lever at our disposal. Their effects are not immediate nor can they be, but they will make a difference over time, and create jobs in due course. We must tell the truth. There are no magic formulas. Reforms take time and so does their impact on growth and jobs.

Obviously, when speaking about reforms, our focus is always on the road ahead. It may seem steep, but just look how far we have travelled already. This should be a source of encouragement.

Courageous decisions have been taken across Europe. Going against vested interests, of all kinds: in the financial world, in the energy sector, in the labour market, in the sheltered services. Social fairness can only be achieved when the efforts and sacrifices are spread evenly.

My colleagues Elio Di Rupo and Mario Monti have just given you some striking examples. Other colleagues have likewise taken the bull by the horns. Spain and Portugal have made their labour markets more flexible. Greece has opened up 150 closed professions. Finland and many others have shifted tax away from labour. Poland has cut red tape for start-ups and companies.

The Baltic States, who were among those hardest hit worldwide, took drastic measures. Today, growth is back and nowhere in Europe are employment levels rising faster than in Lithuania, Latvia and Estonia! And this with fixed exchange rate systems. I for one have never believed that you could devalue your way out of structural problems!

A lot of this work to improve competiveness has to be done by the Member States individually. It helps to learn from each other. All colleagues are now well aware that the failure - or the success - of one country, can change the outlook for all. This gives the discussion among leaders at the European Council a new intensity. And I consider it my duty, as its first permanent President, to make the most of the continuity provided by my mandate, and remind colleagues -- gently but constantly -- of their individual pledges and collective commitments.

EU measures on growth

Some of the work to provide a growth-friendly environment we can only do together, at EU level.

Take patents, key to turn ideas into products. For the moment the cost of filing a patent in Europe is 20 times higher than in the US or Japan. We are closer than ever to an agreement on the much-awaited European patent: it should reduce these costs by 80 %. Its launch will come as a big relief to everyone!

Or take the Union's work on the single market, our unrivalled achievement, and on trade, securing new markets for our companies abroad.

Provided it takes place on a level playing field, international trade is a vital engine for growth. The example of Germany proves that Europe is perfectly capable to fight its corner as an exporter of high quality goods. We stand to benefit enormously from the abolition of non-tariff barriers. Our agreement with Korea is a good example. We hope Japan will deliver on its stated intention to open up its markets. Trade negotiations with the United States could potentially have a huge impact, but we are not there yet. Many companies are doing excellent business in China, but there is still a large untapped potential. Trade is a two-way-street.

Global relations are not only about markets but also about people. It is often said that there is a global ‘competition for talent’. This is true, but it can convey the wrong impression, that this is an elite issue. In fact, the need for skills is a concern at all levels. There are more than 2 million vacancies in the Union. And I presume we are not looking for 2 million Albert Einsteins…!

But there is much we can do to make sure that our workforce remains the most skilled in the world. Let's be concrete. What can we do for a 16 year old in Spain or Sweden?

First: provide appropriate training, before and throughout careers, matching the needs of our economies. Bridging the gap between the classroom and the workplace; something which requires efforts from both sides.

Secondly, we must make it easier for young people to get the first foot on the ladder: apprenticeships, work experience, first proper contracts. The era of a job-for-life is over, so everybody should at least get a fair first chance.

Thirdly: we must make it easier to go where the jobs are. The impressive number of vacancies in Germany, the UK and elsewhere in Europe shows there are real shortages of labour, or at least shortages on the spot. The challenge is to do to work, what “Erasmus” has done to studies! And the Commission has put its best minds on it.

You may have ideas, markets, and skilled people – but without capital you are still nowhere. Financing is key for growth in the longer term, but also in the short term, to avoid entering a downward spiral. Here Europe can contribute decisively.

Our work on stability is unfinished. As we see in the current debt market context, it has become increasingly difficult for governments, firms and banks to access financing outside their own countries. This is very worrying and in the long run an unsustainable situation. It is my conviction that we must keep moving forward toward a more integrated euro area financial sector framework and fiscal system. This is key to strengthen the foundations of our common currency and give both the citizens and investors the certainty they need for the future.

But now back to growth. The Union's regular budget is one instrument. Before the end of the year we will define the EU's financial framework for 2014-2020. Even if it represents only about 1% of our GDP, this does amount to around 1 trillion euros over seven years, which can have huge effects in terms of leverage. It enables investments with a Europe-wide growth potential which otherwise would simply not be possible, for instance by creating connections in energy or transports, financing ambitious research or digital networks. This year we have a unique occasion to transform this budget into a tool for future growth.

To fill financing voids left by the markets, the European Union also has its own investment bank, the European Investment Bank, the biggest multilateral bank in the world. It isn't very well known by the wider public, although I suppose many of you do know it: the EIB lends directly to the larger ones of you, and helps banks provide loans to smaller businesses. It was a partner in developing important infrastructure projects, such as windmills or solar power stations.

During the crisis, when banks took fright and the market retreated, the EIB substantially upped its game, ensuring that crucial projects continued to receive the necessary financing. Today, without new capital, the Bank would soon be forced to scale down its actions. Certainly, new capital means calling upon European governments and taxpayers. Yet there is a convincing case to be made.

Shouldn't we therefore examine how the EIB can expand its role there where it is most needed? I think we should.

With a 10 billion increase in the capital, we could expand the Bank's overall lending capacity by 60 billions of new loans in the next three years, to support new investments up to 180 billion euros. Such support is essential for countries and companies to be able to grow themselves out of the crisis!

To conclude: it is clear that the stakes are high. Europe needs structural economic growth, and we can deliver it. I repeat: reforms take time.

This is the highest priority for European leaders, and we are working in close contact to make it happen. We will be meeting again in June within the European Council to take important decisions and I do not exclude convening an informal Leaders' dinner at an earlier date for an open exchange of views on how best to prepare matters for June.

We have to engage in the battle of ideas. Fiscal consolidation does not just equal momentary austerity. It also means investing in the future. It is an exercise in making the right, future-oriented choices. Cuts and taxes need to be fair. Even a growth policy needs choices and sacrifices, but these should not be borne by one social group or generation. Some create the impression (or the illusion) that a growth policy is easy. This is not at all the case. It is a moment of truth. We have to shape change, otherwise it will be imposed on us.

As I said at the start, you also, as entrepreneurs, must make your voices heard in this debate about Europe's future. We need a positive language on Europe. There is enough criticism. There is enough fear. We need a language of hope. If you plead the case for change forcefully, you will find unexpected allies – not only in the usual circles of government or business, but also among employees, the young, the unemployed. Hope is an attractive idea. We can shape change. We did it in the past. We are the masters of our own future.