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### **“RIEN NE VA PLUS?” – WAYS TO REBUILD THE EUROPEAN SOCIAL MARKET ECONOMY**

**22 – 23 JANUARY 2009, EUROPEAN ECONOMIC AND SOCIAL COMMITTEE**

#### **ADDRESS BY PHILIPPE DE BUCK, DIRECTOR GENERAL**

Ladies and Gentlemen,

There can no longer be any doubt about the depth of the financial and economic crisis.

It started back in 2006 with the beginning of the subprime crisis. It continued in 2007 with doubts about the value of toxic assets. It turned in 2008 into a complete freeze of interbank lending and capital markets. This was the last signal needed to reverse the economy from growth to recession.

Yes, we had sustained growth in the last few years, thanks to the availability of private equity, thanks to very low interest rates, thanks to an unprecedented period of strong world growth. This benefited Europe as an open and export-oriented economy! Unemployment was – and still is – at a historically low level. Never before so many jobs were created, 10 million over the past three years alone.

Today we are entering in a different era. The crisis in the financial sector – we have to admit it – has to a large extent a private business origin. It was not driven by regulation. But it was amplified by the lack of appropriate coordination among regulators and severe imbalances on the global level:



- Existing monetary or exchange rate policies led to excessive liquidity on the money markets.
- Regulation was inappropriate or even absent for certain areas of activity.
- The achievement of high yields happened without any accurate assessment of the risks, neither by market participants nor regulatory and supervisory authorities.
- Macro-economic policies were inadequately coordinated and structural reforms were insufficient.

This has led us to where we are today. An unprecedented degree of intervention of national governments through rescue plans, bail-out of banks and recovery programmes was necessary. To prevent the banking system from collapsing but also to re-launch the economy.

Of course, companies feel the severity of the situation. Business confidence has hit the lowest level since 1985. The situation on labour markets has started to deteriorate. Indeed, unemployment is rising at the fastest pace since 1993. Based on the Commission's latest forecasts the number of unemployed will increase by 4 million this year.

In these truly difficult circumstances, what do I note?

1. Even if this is a difficult situation, there is no fundamental questioning of market economy principles by anybody and this should not happen.

The market economy is based on initiative, on investment, on development. The market economy is fundamentally based on risk-taking. To function well, it has to foster competition and private initiatives, to support entrepreneurship.

From the "liberal" side of the spectrum, there is an acceptance of – and even a recognition of the urgent need for – state intervention: intervention to secure the savings of citizens; intervention to restore confidence in the banking sector and to reinstate a normal credit flow.

Even if we may consider that the distribution of credit has almost been nationalised, the way it is managed should respect market



economy principles. This is important since states can have a deep influence on the financial sector. It will be even more important when states decide that they can safely withdraw again.

2. The European authorities generally, but the ECB in particular, have played their roles on time and with huge means.

The euro as a currency has won its spurs: without the euro, the chaos would have been enormous.

The engagement of the ECB today and its prudence yesterday must be recognised and rewarded.

3. Until the credit flow to households, corporations and SMEs is restored the economy cannot recover. It so happens that European companies are more indebted than their American counterparts. Therefore, they are more dependent on external financing.

The rescue plans put in place should solve this. Today – notwithstanding the 2,500 billion euros in commitment to save the banks - this has not happened in a satisfactory manner.

A roundtable organised by Commissioner Verheughen between banks and SMEs had a meeting yesterday. It was an opportunity for all the actors to express their concerns. However, new or more effective remedies to the crisis still need to be found.

4. There is no separation between the financial economy and the real economy. If anybody doubted this, they have the proof today.

If the financial markets do not work properly, the economy at large is affected.

Financial services and the industrial sector are closely intertwined.

Of course financial market rules, supervision and transparency rules have to be reviewed! This revision should be smart by not doing more than what is needed. This revision should be based on responsibility of the actors. It should secure transparency in financial systems.

This is what a market economy is all about: a legal framework that balances freedom and security: responsibility to be shown by all the actors on good and bad days; transparency because a market economy is based on trust and open competition.

As a list for action, I would like to stress the following points:

- The recovery plans have to be implemented. Each country, to the extent that it can but nevertheless in a coordinated way, should go for a 1.5% GDP plan. It must be targeted, timely and temporary as the Commission has suggested. It must be effective at spurring growth.
- There are some flexibilities embedded in the Stability and Growth Pact. They can be applied but the essence of the Pact cannot be given up. This, as we can see in some countries today, can have serious financial consequences.
- The role of the European Central Bank and of the Eurogroup will have to be enlarged, respecting the independence of the ECB but entrusting it with wider supervisory tasks.

We have to ask ourselves how fast Member States that are not part of the eurozone should be integrated. The answer has to take into account what the current situation has cost these Member states and also the EU.

The final question, though, is how we safeguard the European Social market economy.

Let us be clear on this. European business wants to maintain the essence of the European social model. It is therefore urgent to find the ways that lead us back to growth. Our social model is based on growth on the one hand and on the way solidarity can be maintained or increased.

It is proposed that we review our joint analysis of the labour markets. This can be envisaged because the situation has indeed evolved since 2007. But by no means should we go back on what we have said about flexicurity. The real impact of flexicurity is not measured in good times. Its effectiveness is demonstrated in more difficult times.



Indeed, everybody agrees that companies must be flexible and that workers need security. But today, we need more than ever security for companies and more flexibility for workers.

I rather urge member states to use the current situation as a catalyst for structural reforms and to create more flexibility in the system in order to provide security. Let me give three aspects which I think are critical:

- We must achieve more flexibility regarding working time. This can take various forms and two member states have already taken or reflect about promising initiatives:

In the Netherlands – as part of the national recovery plan, a fund has been created in order to pay for temporarily redundant employees' training and schooling programmes.

In Austria, social partners discuss the creation of “negative time accounts” – analogous to the existing time accounts on which employees credit their extra hours. The idea is that employees will be able to work less in periods of slow growth – i.e. accumulate negative hours – and equilibrate their accounts with extra hours once economic activity accelerates.

If sufficiently funded also with the help of government guarantees, these measures are the best way to allow companies to keep their skilled workforce on the payroll and to avoid layoffs.

- Member states definitely need to reduce non-wage labour costs. This will have immediate effects and certainly improve companies' incentives to hire workers once the crisis has abated. For example the German, recovery package already includes specific measures to reduce social security contributions.
- Finally, we must focus on training – now. What some companies are doing on education and training is an excellent investment for the future. Indeed, the next economic upswing will be unthinkable if companies lack a sufficiently qualified work force. Therefore it is crucial that companies and governments invest in their people.



Ladies and Gentlemen, I have witnessed during my entire professional career companies' entrepreneurial spirit to innovate and adapt – especially during downturns. Today, I believe that the European economy can come out of this crisis stronger than before.

But I do not hide that the current period poses a tremendous amount of challenges and will see numerous changes. Everybody will have to be prepared and contribute his share.

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