BUSINESSEUROPE

GO FOR GROWTH
AN AGENDA FOR THE EU IN 2010-2014

Madrid Declaration
Lasting growth will only be achieved with greater stability

Recovery still consolidating despite growing uncertainty

Entrepreneurs across Europe are sparing no effort to increase their activity and participate in the global upturn. BUSINESSEUROPE predicts growth in the EU to average 1.1% this year and 1.6% in 2011. This should allow the unemployment rate in the EU to stabilise in the coming months and job creation to resume in the course of next year. But this recovery momentum is fragile and the rapid deterioration of public finances has become a major destabilising force.

Discipline and growth must go hand in hand

The escalating sovereign debt crisis has heightened uncertainty and is having far-reaching consequences for companies' investment decisions across Europe.

To restore trust and avoid leaving an unbearable burden for future generations, many European governments are having to prescribe a hard but necessary medicine.

The business community strongly believes that successful fiscal consolidations will rest on expenditure cuts and a reprioritisation of government policies. Past experience demonstrates that tax increases have limited or even counterproductive effects on fiscal sustainability in the medium term.

The only way to alleviate the short-term costs of austerity measures will be to embed them in an ambitious growth agenda for Europe, stimulating the adaptability of companies, supporting the employability of people and ensuring the long-term viability of our social systems.

Global competitiveness is key to get Europe out of the crisis

Our "Go for Growth" plea is quite clear: reform markets and institutions to unleash companies' potential, and let them drive Europe out of its current economic difficulties. We think a doubling of the EU's growth potential to at least 2% over the next 5 years is possible and should be the EU's main objective.

Key ingredients for success include better framework conditions for innovation and entrepreneurship, greater access to global markets and finance for companies, implementation of EU flexicurity principles and an ambitious EU industrial policy.

Concrete recommendations for structural reforms should be established for each Member State, and strong enforcement mechanisms to ensure compliance.

At a time when companies, particularly in the manufacturing sector, are healing their wounds and gearing up for the recovery, international competitiveness must be the overarching priority.

This must apply to all policy areas including the EU's climate mitigation strategy and financial market reform agenda, where a unilateral approach must be avoided. Given the current situation in the global negotiations, Europe should not move its CO_2 emission reduction target of 20% and needs to maintain clear criteria for reassessing this target in the future.

Regarding financial market reforms, global coordination must prevail. The priority is to allow the EU's financial sector to rebuild a stronger capital base, to provide sufficient financing to the economy and to ensure a global level playing field in the sector. A unilateral bank levy in the EU does not satisfy those criteria.

Fiscal instability reflects pre-crisis indulgence

The current public finance crisis is a collective failure. It has its origin in years of indulgence and poor economic governance, long before the financial crisis broke out.

Fundamental reforms have been delayed for too long, consolidation efforts in good times were largely insufficient and the Stability and Growth Pact rules of the European Union openly ignored. This may not happen again. The rules should be strictly applied.

These past failures have a large collective cost today: confidence in the single currency has been undermined, risk premia are rising on most capital markets and the interventions of governments and central banks have been stretched to their limits.

The business community has a clear message: the euro is a fundamental pillar of European integration and has brought great benefits to companies and citizens across our continent. Its stability and credibility is of highest importance for all BUSINESSEUROPE members.

A new stability culture for the euro

The euro is a common good. It requires solidarity and cohesion between countries sharing it as a currency. But this starts with an individual obligation towards discipline and stability, and a collective drive to reform. In the long run, solidarity and cohesion will only be maintained in the euro area if a new political culture is put in place.

We call for a sense of urgency and priority in the current discussions on the future governance of the euro area. Key decisions addressing some of the underlying causes of past failures can be taken in the coming months - without requiring Treaty changes.

They will need to be agreed by the autumn and implemented before the end of 2010. For countries sharing the single currency, we recommend in particular:

- Earlier debates in the eurogroup on national budget orientations, a broader surveillance of economic policies and forceful actions to prevent imbalances from developing in the first place.

- A system of gradual penalties and sanctions in case of repeated indiscipline. This should start with obligatory non-interest-bearing deposits for countries failing to consolidate in good times to temporary suspension or permanent withdrawal of EU funds for non-compliant countries.

- A transposition of debt and deficit rules into national law and reforms of regional and local fiscal institutions. This would greatly help to restore the credibility of fiscal commitments without requiring any institutional change at EU level.

In the medium term, BUSINESSEUROPE also believes that the euro area should be equipped with a more permanent crisis resolution system. This should notably include a mechanism that allows for public debt restructuring and orderly default in last-resort situations. These decisions should ensure that financial stability can be secured while preserving the full independence of the ECB.

Given the importance of the euro for the smooth functioning of the global economy and its financial system, the credibility and independence of the European Central Bank is absolutely paramount for the European business community at large.

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The presidents of BUSINESSEUROPE's members are broadly supportive of the emergency actions undertaken in recent months. But Europe is at a crossroads and has a simple choice to confront: reform or decline.

We urge the European Council to set the right course of action and instil a sense of urgency, and by doing so reinforcing the European integration process.

We need a clear direction from European leaders and a commitment to safeguard the historic achievements of the single market and the single currency.

President of BUSINESSEUROPE

Jürgen R. Thumann

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