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Podium I - Creating Sustainable Growth and Stability in Europe

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The current crisis started in summer 2007. In these six years we have lived through five stages of the crisis: the sub-prime crisis, the systemic crisis, the economic crisis, the sovereign crisis and the crisis of confidence in Europe. Since last autumn, market confidence has improved. In addition, there have recently been tentative signs that the real economy has started to stabilize, albeit at low levels. However, it would be premature to state that the crisis is over: the economic outlook is still surrounded by downside risks.

What have we learned from this crisis?

These years have taught us many lessons. They have shown us that the economic aspect of the Maastricht EMU was not robust enough to weather this storm. They have shown us that contagion can be an especially pronounced problem in a monetary union and we need to have tools to tackle it – to prevent it, to correct it, and to solve it. In addition, the crisis has shown us that the decision-making mechanisms at the European level were not designed to cope with crisis times.

At the same time, we need to be fair: this has not been just a crisis of politics or a crisis of the EMU. This has also been a crisis of economic theory and the modern theory of finance. This crisis has cast doubt on many commonly held beliefs from the last 25 years. But some of these beliefs have passed this test. One of them is that a growth model based on ever-growing debt levels won't last. Another is that the stability of the whole economy is important, not just public deficit; Public finances can be on a stable path only when the whole economy is. The third one is that an educated workforce, a functioning infrastructure and innovative companies provide a good foundation for renewing the economy. In addition we need cost-competitiveness and real competitiveness.

How have we changed the EU and EMU?

As regards the EMU, we have improved the economic governance based on those lessons. First, the so called six-pack legislation came into force 18 months ago. The best known parts of it are the third version of the Stability and Growth Pact (SGP) and the new macroeconomic imbalances procedure (MIP). The MIP pays attention on the balanced development of the whole economy. In addition to the six-pack, we have improved the governance system with the two-pack and the treaty on stability, convergence and growth. Second, the crisis management structures have been developed and the ESM has been in place since last October. Third, the banking union is an important step towards further strengthening of financial stability.

We need more growth. How can we achieve it?

Looking forward, merely tackling the current crisis is not enough. We need to improve our growth model. As regards the ingredients for growth, Europe will face a change in its demographic patterns. In the coming years a greater number of people will retire than come in to labour markets. Thus, without structural changes which increase labour supply the workforce will decrease. This will be a huge challenge for our societies. As regards the second growth ingredient, capital, the optimal quantity and quality of investments is continuously on the move. Merely investing more is not the key to success: we need to invest more wisely than before. Thus, the major component for future growth is productivity: we need to be able to make better goods and services in a wiser way.

There is much that the authorities – the EU and its member countries – can do to support this process. First and foremost, they must take care of providing a level playing field for companies and individuals alike. Second, authorities' decisions can affect labour supply decisions throughout the life span of an individual. Third, structural reforms are essential to boost competition, innovations and potential output.

But there is also much that the authorities can't do - neither EU nor the member states. In a market economy households and companies are the major players. The households make the choice to buy or not to buy, and companies decide how much to invest in labour, capital, and how to organize their use to improve productivity in the long-term.

Moving from words to actions

The main ingredients for an improved EMU now exists. Compared to pre-crisis times, we have an enhanced set of rules and we have market discipline. Both are important. As regards the rules, true ownership is crucial. The EU cannot just sell the rules, as is – the member countries need to buy them, to take them fully on board. Similarly, the EU cannot take the tasks that on the member countries' behalf. A clear distribution of responsibilities between Brussels and the member states is important.