

## BRIDGING ECONOMIC AND POLITICAL DIVISIONS IN EUROPE

Alexander Stubb

- European integration used to be about bringing greater convergence to Europe. The customs union, the Single Market and Economic and Monetary Union are all major leaps in terms of convergence, bringing our societies and economies closer together. Convergence has also been about values and politics – reinforcing the common European value base and consolidating common institutions. We too easily forget that only forty years ago the prominent political model in the Mediterranean was military dictatorship. Communist dictatorships were the norm in half of Europe until the early 1990s.
- The current economic and financial crisis seems to have reversed this positive development and greater convergence has been replaced by growing economic and political divisions in Europe.
- We have to fight this development – we did not heal the Cold War division of Europe to allow Europe to be divided again. As I have said on a number of occasions – in Bruges and Dublin, in Paris and Warsaw – the old East-West division cannot be replaced by any new artificial and harmful dividing lines, be it North and South or euro and non-euro.
- All European countries are in the same boat – our greatest challenges are common to us all – how to maintain the European social and economic model in the global economy where we have to compete on an unprecedented scale. At a time when demographics are working against us. Chancellor Merkel underlines the 7-25-50 issue – with 7 percent of the population, 25 percent of the production and 50 percent of global welfare spending Europe really needs to be competitive to maintain its prosperity.
- Because of our great common challenges we need to bring Europe back to its business of producing greater convergence – a convergence of values, competitiveness and welfare. This is the essence of bridging economic and political divisions in Europe.
- I am proud to be here with my Portuguese colleague. Portugal is working hard to overcome the crisis. There has been close cooperation between Finland and Portugal. Together we are looking at solutions, be it in financing European small and medium sized enterprises or developing the European single market further.
- Returning to European convergence requires solutions to the current economic crisis. Responding to any crisis usually involves three stages: 1) stabilization, 2) consolidation and 3) moving forward. The European economic crisis is no different.
- My first point is about stabilization. Stabilization is essentially crisis management. Making sure that the boat is not taking any more water, plugging the holes.
- Stabilizing the European economy has been a remarkable achievement – there was a question mark about the survival of the euro, but concerted action as a union has secured the currency union. The existential issue no longer exists. New measures – both in terms of crisis management and improving economic governance – were approved and implemented at great speed: the European Stability Mechanism, robust ECB action, the Six-Pack, now Banking Union.
- All European countries have been affected by the crisis. I am impressed by the reforms that have been implemented, for instance in Portugal. The exit of Ireland from the program is an encouraging development. So is the positive development of the Spanish economy. Many member states have been hard hit by the crisis, but the reforms that have been undertaken can change the economic landscape and bring new competitiveness to crisis-stricken economies. Confidence is slowly recovering, as we can see for instance from foreign capital returning to the European banking sector.
- And I am not exempting Finland from this list – we also face major economic challenges and are in need of reform. This highlights the fact that looking at Europe from a north-south perspective does not make sense – Finland is among the economies that have much work to do and where many indicators are cause for real concern.

- Stabilization does not mean that the crisis is over. European recovery is very weak. We need to look at our economy and ways to improve growth. Introduce new dynamics to the European economic equation. This is essentially about consolidation, taking measures that allow the European economy to return back to strong growth.

- This brings me to my second point – consolidation. The consolidation of the European economy forces us to take a hard look at our economic foundation – what makes European economies grow and prosper. How to consolidate a healthy basis for solid economic growth. To my mind this is a back to basics project for the European Union and my answers will not surprise anyone: more free trade in the world, a better European single market, economic reform within the member states. Europe cannot prosper by making cheap things, but by being at the leading edge of knowledge, innovation and research.

- A major, and perhaps fundamental economic issue, for European growth is investment. How to get companies to invest in Europe. There is too little investment and it is not because of a lack of finance – the financial market has unprecedented liquidity, rates are historically low, major national and corporate surpluses exist within Europe.

- A crucial issue for policy makers today is whether growth is slow in Europe, because there is little investment – or is there little investment because European growth has limited prospects. As policy makers we can change this landscape by improving the conditions for European growth. By making Europe a better place for business.

- The single market is an excellent example – building the Digital Single Market will make Europe a better place for business. Stimulating demand for clean tech and bioenergy at the European scale will bring new leading industries to Europe. And we will need to bring markets back to climate and energy policies, where stupid incentives are hampering smart investments and divide the European energy market.

- Better regulation is another excellent example. Taking a hard look at European Regulatory Fitness – the Refit – is important for making Europe a better place for business. But nothing European removes the responsibility of the member states. Much needs to be done in terms of economic reform and structural change.

- Moving Europe forward brings me to my third point, which is about the choices we will need to make next year. A year for European elections and new institutions. These choices will be crucial for bridging economic and political divisions in Europe.

- Getting our economic policies right is fundamental for bridging divisions. One division that gets much attention is growth versus austerity. This is a misleading division – only the consolidation of public finances and accompanying economic reforms will lead to sustainable growth. You cannot choose between the one or the other.

- The debate about the German trade surplus is an eminent example. The problem is not German competitiveness – strong export growth to world markets is essential for Europe. The real problem is the lack of competitiveness elsewhere in Europe – well performing German companies have not invested in Europe, because Europe has been an unrewarding place to do business.

- Reforms are slowly changing this picture and we get more and more news about improving investment, for instance in Spain. Factories are being built, feeding Spanish intermediate goods to German companies for export outside Europe. Sustainable European growth is not really about German consumers buying more, but all European economies becoming competitive for the global market place as part of European value chains.

- Political divisions are easy to highlight with approaching European elections – earlier it was easy to talk about left and right, but today the real division is really about globalists and localists. The tide of European populist movements is tied to anxieties relating to globalization – how to close doors at a time where doors no longer exist. We will only prosper with openness.

- I usually make the observation that political extremes – from the left to the right - are alike in many respects – fearful of economic openness, reform and opportunities. Looking for closed economies that no longer exist, living in the past.

- Another crucial item in terms of political divisions is how to maintain the European Union as a meaningful entity for all its 28 members. Developing Economic and Monetary Union is a necessity, but it cannot come at the cost of dividing the single market. Nor should we introduce more uncertainty with issues like the repatriation of competences or renegotiation of treaties. The real issue is European growth, not European treaties. The real issue is the smart use of European competences, not competences as such.

- Next year, we also need to get European institutions right – a European Parliament looking for solutions and a European Commission focused on growth. These European institutions need to work much closer together in building a solid foundation for economic recovery and growth in Europe. Focus on the essentials. The Commission needs to function well and in unity as a college.

- We need Europe, but a Europe that is clear about its mission. Being a good European does not mean that Europe has to be everywhere, but it is about seeking European solutions to issues that we can only fix together. Bridging economic and political divisions is essentially about seeking European solutions to growth.