



Presentation to the Committee on Economic and Monetary Affairs of the European Parliament

Going for Growth and Balance in Europe

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(As prepared for delivery)

Honorable Madame Chair,

Honourable Members of the European Parliament,

Ladies and Gentlemen,

It is a great honour to address the Committee on Economic and Monetary Affairs of the European Parliament. I am addressing this Committee for the first time, but I see this as the starting point of an intensified dialogue and look forward to future occasions and exchanges.

Over the last four years we have lived and worked under the impact of the greatest economic crisis of our lifetimes. We had to come to grips with the vagaries of financial markets, find new solutions to unprecedented financial, economic and employment challenges, all while trying to restore confidence, give people hope and maintain democratic and institutional legitimacy.

We are not out of the woods yet: addressing the short-term challenges

In the last weeks the fog has cleared a bit. Recent actions in Europe have produced a solution for Greece that has calmed markets, the ECB has assured the necessary liquidity for the banking sector, and countries like Italy, Spain, Portugal and the UK have committed to fiscal consolidation and major reforms. Across the Atlantic, the US economy shows again 'green shoots' of growth.

But we cannot sound the "All Clear" yet. There are still pending issues derived from the crisis, confidence in the markets is still shaky, and more than anything, the long-term growth perspective of Europe in a competitive global environment is muted.

Indeed, we have yet to get to the the heart of this crisis, to the build-up of excessive financial, fiscal and economic imbalances during the upswing of the credit cycle. Resolving the legacy of high debt, strengthening competitiveness and balance and creating jobs is the major challenge for governments and institutions in Europe.

Confidence in the ability to decisively address the sovereign debt crisis is still fragile. We are looking forward to the informal ECOFIN later this week and recall the need for a stronger “firewall” to stop contagion risk and reassure markets. We need the “mother of all firewalls” to shock the markets positively with overwhelming firepower and, thus, reduce the changes that you ever have to use it.

Shifting wealth can also be an opportunity to reinvent Europe’s strengths

As much as the Euro crisis and concerns about growth and employment in Europe absorb our attention – we cannot close our eyes to new global realities. Over the last ten years developing and emerging-market economies have greatly increased their contribution to global growth, shifting the economic centre of gravity to the South and the East.

Developing and emerging-market economies now account for nearly 50% of world GDP, a far cry from the 36% that these countries represented when the OECD was created in 1961. Even though their growth prospects are linked to yours -as we have seen lately-, their economic dynamism and competitiveness are exceeding those of more advanced regions like Europe. Calculations suggest that trend growth for the EU is around 1.5 % per year, while growth of potential would be above 2% for the US and emerging countries are growing much faster, perhaps as much as 8 or 9 % for India and China. That’s what we call “Shifting Wealth”.

In the battle to nurture and attract the best brains, Europe faces stiff competition from the US, Canada or Australia for the smartest students from India or China and for the most qualified immigrants. In education, students from Shanghai and other Chinese provinces are outperforming their European peers in PISA rankings.

At the same time the EU lags behind the best performers in the OECD in terms of productivity, employment rates and labour market participation. Investment has been declining in many European countries and innovation spending is lower than in Japan or the United States. In short, all this amounts to a massive wake-up call to action for growth and jobs. A true “Sputnik moment”.

Higher productivity growth is needed both for Europe to compete in the challenging international economy as well as to address social challenges. Weak growth performance has gone hand-in-hand with growing social problems, slow growth in real incomes and rising inequality. 24 million people in the EU are unemployed today, with youth unemployment reaching nearly 50% in Greece and Spain.

Growth and Jobs with a “policy agenda for competitiveness and balance in Europe”

Given that growth and jobs are more difficult to generate when the space for fiscal and monetary policy is limited, Europe needs an agenda for competitiveness and balance to respond to the growth and jobs challenge. This means that we have to concentrate on structural reforms that increase productivity and labour force participation by opening service sectors, by reforming health and pension systems, by making labour markets more flexible and raising skills or by facilitating innovation and entrepreneurship.

We also need a robust financial sector that contributes to sustain growth. Ambitious structural reforms are not only needed to reignite growth in a recession-struck European Union. They are especially crucial to address the rigidities that contributed to create the imbalances in the first place and to help avoid or be better prepared to deal with future shocks. Thus, we need a new compact for competitiveness in Europe. In this effort, the OECD can help, bringing the experience not only of its own European members, but those of the rest of the world that can be a source of inspiration and comparison. We are working with Italy and Spain to restore competitiveness, but we are

at the full disposal of all members and of the European Union and the European Commission to implement ambitious reforms in many sectors.

Let me draw your attention, for example, to a driver of growth, the Single Market. The Single Market is one of the proudest achievements and one of the most significant assets of the European Union. But the potential of this market of 500 million people is far from fully exploited. Particularly in the services industry, the EU-market remains fragmented. Three elements are key for a truly integrated European economy:

First, existing Single Market requirements need to be implemented more effectively;

Second, Europe needs a much more coherent and consistent framework for cross-border economic activity.

Third, more progress is needed in a range of specific areas from cross-border government procurement to the development of Europe-wide smart infrastructures and improved labour mobility. Only 3% of working-age EU citizens live in another EU country. With 5% of the working-age population, migration from outside the EU is larger than migration within. This makes it hard for workers and firms to achieve the most productive job matches.

For the economy, this situation allows some regions to overheat, while unemployment stays high in others. Policies are needed to make the EU labour market work better – for example through better recognition of professional qualifications and portability of public and private pension entitlements. At the same time, the EU needs to focus on how to avoid brain drain from Europe, while managing to attract high skilled workers to help it compete globally.

To sum- up: It will be key for European policy makers and institutions to lay now the foundations for future growth and jobs built on the following elements:

- Unleashing new sources of growth, such as green growth, innovation and skills, which are crucial to maintain or regain competitive advantages for Europe.
- Removing structural impediments to productivity growth in countries that lost competitiveness since the introduction of the Euro and unlocking opportunities for investment, particularly in protected service sectors.
- Fostering greater and more effective utilisation of labour, tackling inequalities and investing in people's skills and education. A particular focus needs to be put on ageing, which affects all countries in the European Union.

Ladies and Gentlemen,

Overcoming the economic crisis, charting the constitutional and institutional course for the European Union, implementing structural reforms and generating growth are huge challenges. But a crisis offers just as many opportunities. Winston Churchill observed: 'The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty.'

In this spirit, I wish the ECON Committee success in your important work, and I reiterate the readiness of the OECD to upgrade its cooperation with Europe in its quest for better economic and social performance. Count on us to design, promote and put in place better policies for better lives.

Thank you very much!