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After the Crisis: Challenges Ahead

Good morning ladies and gentlemen,
“Central Banking after the Crisis”—frankly, I would be glad if the topic of my speech was “Politics after the Crisis”. But unfortunately this crisis has many chapters.

Now, while the clean-up efforts are still in full swing, we have to lay the groundwork for a new economic recovery. And in order to ensure these foundations are solid, we need to learn the right lessons from the crisis and build on these lessons.

In my view, one of the main lessons to be learned from this crisis is that the belief in the all-pervading power of the markets is a thing of the past, as is the belief in the all-powerful state which is long since obsolete.

A wise balance of market and politics is the best strategy against future crises and for a sustainable recovery coupled with full employment.

This balance is decisive to handling today’s three major political challenges: firstly, regulation of the financial markets; secondly, budget consolidation that is socially fair; and thirdly, a new growth strategy to promote full employment.

Fair Financial Markets

Regulation of the financial markets is way overdue. Intransparent financial products were responsible for the financial crisis. This cannot be allowed to happen ever again.

Furthermore, new financial markets are also important from a democratic policy point of view. If we do not succeed in getting down to the root causes of the problem that led to this crisis we will lose citizens’ trust. And this in turn will de-stabilise both democracy and markets. Because fair investors call for fair financial markets. Let me quote Jean-Claude Juncker, the President of the Eurogroup, who very

aptly stated that serious investors preferred regulated transparent markets while speculators preferred the Wild West.

In order to avoid such a destabilisation, we therefore require:

- The introduction of a banking levy and a financial transaction tax
- The establishment of an EU rating agency
- More rights and powers of authority for the European financial market authorities
- Stricter regulation of securities trading and specific bans on speculation
- Legal regulations for manager bonuses
- Stricter controls for hedge funds
- Improved consumer protection in the field of financial products
- Banking insolvency laws



A reform based on these principles will enable us to re-establish the balance between financial markets and the real economy. In the spirit of establishing this new balance, the financial sector will have to make its contribution, because fairness in line with social requirements means fairness in line with market requirements. Budget consolidation with a sense of social proportion is vital for the many small and medium-sized enterprises that are dependent on

their customers' purchasing power. Reducing this purchasing power by imposing higher mass taxation would mean reducing their sales.

And by making a fair contribution banks will, after all, be able to improve their image that has suffered as a consequence of this crisis. Taxpayers have incurred major risk under the banking bail out schemes and are justly calling for banks to contribute their fair share.

New Growth for New Jobs

We need to make money available for policies to lead us out of this crisis and we require a socially-balanced, just and fair government revenues scheme to generate the necessary funds. This is why the areas of research and education will be less strongly affected by the



tough cost-cutting programmes we will have to implement over the next few years. Ensuring we provide the best educational system for our children as well as implementing a future-oriented research strategy will certainly cost money, but the costs of thinking that we could do without will be much higher.

As we clear up the debris of the crisis, we have to rise up again in order to be able to succeed in international competition.

I was in China just a week ago and was able to see for myself how much effort and zeal Chinese industry is putting into shifting their business from the assembly lines to the research labs.

Under the old neoliberal doctrine, the immediate response to this global economic competition would have been: down with social standards, down with wages and up with weekly working hours – an approach that would only increase poverty and threaten the middle classes.

Austria and Europe are therefore called upon to combine their traditional values with new ones.

One such traditional value is the welfare state our ancestors fought so hard for and which the Americans are increasingly taking their bearings on – as we have seen in Barack Obama's health care reform.

Today, this welfare state has an increasingly important role to play in fighting poverty. Poverty, which is no longer automatically caused by unemployment in Europe – where 12% of employees earn so little from their work that they live below the poverty line. That is 40 million out of 320 million employees in Europe. In order to be able to fight poverty we therefore require new and qualified jobs. And we will only be able to sustain this welfare state by promoting education, research and development.

One of Europe's priorities is climate protection. We must support technologies in the field of climate protection. Because they will give us a competitive edge achieved by know-how – and not by wage dumping, granting generous tax incentives to large business groups or by cut backs in the welfare state.

A New Economic and Social Union

This brings me from the lessons learned to the challenges ahead.

One of the lessons to be learned from this crisis is that Europe needs to improve coordination in order to be able to respond faster in the event of a crisis.

It is clear that sound budgets and a stable currency are decisive yardsticks for a stable European economy. But if all European countries were to simultaneously cut costs in all the wrong places this would only lead us straight into the next recession – and reduce our perspectives for the future. What we need

now is joint initiatives to be launched all around Europe.

As is the case with our joint savings and cost-cutting programmes, we also need to better coordinate our social growth strategies to enable us to create new highly qualified jobs and ensure that Europe will become an economic and social union – in the spirit of striking this new balance between people and markets.

Ladies and gentlemen, I thank you very much for giving me the opportunity to address you today and wish you every success for your conference.