

Europe – Quo Vadis? 50 Years Treaty of Rome

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On March 25, 1957, France, Germany, Italy, Belgium, Luxembourg and the Netherlands signed the Treaty of Rome. To commemorate the 50th anniversary of this event, the Oesterreichische Nationalbank (OeNB) and the Austrian social partners organized a conference under the heading “Europe – quo vadis? 50 years Treaty of Rome.” The conference, which was part of a series of Austrian and Europe-wide activities to celebrate the 50-year anniversary, attracted more than 250 participants.

What originally started out as a Western European economic union of six states, today comprises 27 Member States joined in what has come to be known as the European Union. The EU unites a population of close to 500 million citizens whose interests are equally represented and who jointly pursue the aims laid down in the Treaty of Rome.

The conference, which was organized by the OeNB (European Affairs and International Financial Organizations Division and Communications Division) together with the Austrian social partners, started out with a press conference in which the OeNB’s Vice Governor *Wolfgang Duchatzek* stressed how much Austria had benefited from joining the European Union. With EUR 11,000 worth of exports per capita, Austria ranked seventh among all exporting countries in the world in 2005. In 2006, total exports for the first time surpassed the EUR 100 billion threshold, reaching EUR 107 billion.

In Duchatzek’s opinion, EU enlargement has been a win-win deal for Austria and the new Member States. Almost one-fifth of Austrian

exports already go to Central, Eastern and Southeastern European countries. Austria’s net direct investment assets primarily stem from the ten new Member States that joined the EU in 2004 as well as from new target regions in Eastern and Southeastern Europe. Austrian banks today have an average market share of 25% in Eastern and Southeastern Europe, in some countries even up to 60%.

Duchatzek pointed out that, within the European Economic and Monetary Union (EMU), Austria’s economy has performed above average and Austria has become one of the leading countries in terms of competitiveness, attractiveness as a business location and level of prosperity. Economic growth is robust and employment reached a high in the course of 2006. Unemployment is low by international standards and is likely to decrease in the next few years. Prices are very stable and Austria’s current account surplus reflects the country’s price competitiveness.

Moral suasion by EU institutions has encouraged Austrian policymakers to introduce the budgetary reforms the country needed. According to Duchatzek, it is important that the Austrian government uses the currently very bright economic outlook, which is expected to last until 2009, to swiftly consolidate its budget. The European monetary policy, above all, has to provide a stable monetary framework for sustainable, dynamic economic development. The Eurosystem’s strategy to ensure price stability in the medium term is the best possible contribution it can make to support growth and employment

in the euro area. Since EMU started out eight years ago, employment has increased by more than twelve million.

To compete in a global environment it becomes ever more important for a country to create appropriate conditions for attracting production. Austrian economic policymakers have taken this into account and introduced adequate reforms in the last few years. The current government program contains many elements which continue this successful trend. It is important that these reforms do not lose their momentum in the course of the implementation process.

Following these remarks by Vice Governor Duchatzek, a common declaration by the social partners was signed during the press conference by the four presidents *Rudolf Hundstorfer* (Austrian Trade Union Federation), *Christoph Leitl* (Austrian Federal Economic Chamber), *Rudolf Schwarzböck* (Austrian Chamber of Agriculture) and *Herbert Tumpel* (Federal Chamber of Labor). The declaration, entitled “50 years Treaty of Rome – On the way towards more growth and employment,” confirms the social partners’ intention to actively participate in the construction of a modern, peaceful, competitive and employment-oriented Europe. The social partners call on the Austrian government to embrace the 50th anniversary of the Treaty of Rome as an opportunity to promote resolute action within a future-oriented EU. According to the four presidents “we must aim at creating a future-oriented Europe that meets its citizens’ expectations. Above all, this implies increasing economic growth, creating jobs, dealing with the consequences of globaliza-

tion and encouraging sustainable development and solidarity.”

Another highlight followed when the president of Münze Österreich Aktiengesellschaft (Austria’s mint), *Dietmar Spranz*, presented the new EUR 2 coin dedicated to the 50th anniversary of the Treaty of Rome.

Wolfgang Duchatzek, the OeNB’s Vice Governor, opened the conference with an introductory statement, in which he emphasized that Austria’s overall experiences with EU integration were very positive.

The first prominent speaker was *Benita Ferrero-Waldner*, European Commissioner for External Relations and European Neighbourhood Policy. After presenting a short historical overview, Ferrero-Waldner stressed that further economic integration was only possible within a political union with clear boundaries and the support of its citizens. This, according to Ferrero-Waldner, means three things: First, the EU should continue to coordinate national sovereign interests and limit single-handed actions should be limited. The EU’s foreign policy must become more efficient, coherent and visible to be able to meet global challenges and to ensure prosperity and security for the EU’s citizens. Such a transformation, above all, depends on Member States’ political commitment. Second, a political union backed up by its citizens not only implies acting in the interest of the citizens; it also requires integrating citizens into the decision-making process. The negative outcomes of the referendums in France and the Netherlands have taught us an important lesson: “European” policy must not only be made by a small elite. In the future, we must ensure that the EU decides only in those cases in

which it makes sense to have a single decision for everyone. This implies strengthening the principle of subsidiarity. The European Constitution would provide a clear solution for this issue. Nevertheless, there is no doubt that the text needs some changes. Third, a union with clear boundaries must build and maintain good neighborhood relations. This requires pursuing a stronger foreign policy. Ferrero-Waldner, moreover, envisions that the European model – and with it stability and prosperity – is exported to the world and in particular to our neighboring countries. Within the framework of the “European Neighbourhood Policy,” for which Ferrero-Waldner has a special responsibility, countries surrounding the EU receive the opportunity to closely cooperate with the European Union on an economic and political level, without having the perspective of joining the EU.

The first panel of the conference entitled “Economic versus Social Issues – a Contradiction?” was chaired by Franz Nauschnigg (Head of the OeNB’s European Affairs and International Financial Organizations Division), and started with a presentation by *Karl Aiginger* (Head of the Austrian Institute of Economic Research). Aiginger stated that the European project, despite the constitutional crisis, short-term disappointments, different standpoints on the Iraq issue, and legitimization and democracy deficits in the European Union, has been a historic success from a *political* point of view. According to Aiginger, the disappointing economic developments in Europe are not a consequence of the single market and the European unification process. If it had not been for integration and enlargement, structures

would not have changed, reforms would not have been introduced and markets would not have opened. The problems we currently face would be much larger. All in all, however, Aiginger argued that European integration will not become a true *economic* success until incomes rise on a broad level and unemployment decreases.

The last decade was a difficult one for Europe. Introducing the euro required countries with high deficits to reduce their deficits and their debt and large countries to display a high level of discipline in order to turn the euro into a credible currency. Aiginger stated that, so far, there had been a lack of courage to put an end to these restrictive macroeconomic framework and to make growth a first priority. In his view, the Luxembourg summit was a step in the right direction: The stability and growth pact was relaxed, and the active strategy for the liberalization of services was successfully revised and broken down into national Lisbon programs to be integrated into national economic policies.

He pointed out that a lot of time had passed again, however, without there being significant increases in expenditure on innovation or education reforms. European infrastructure projects are only being implemented with great delays. Aiginger claimed that most countries were not taking advantage of the economic momentum of 2006 and 2007 to invest in structural and future-oriented reforms.

The Austrian Institute of Economic Research has developed a special white book for Austria, which lays out eleven strategies to boost growth and employment. There are four strategy groups:

- innovation, education and further training lift the medium-term growth path;
- infrastructure, dual-purpose technologies, energy and environmental policies and growth-promoting measures by the public sector are strategic elements of high economic policy priority;
- balanced flexibilization and a different outlook on competition reduce growth barriers; and
- the gender strategy and the transformation of informal work into formal employment boost supply, quality and demand on the employment market. The social security system is to be turned into a productive source that helps to take opportunity of the new challenges and transforms disadvantages and temporary losses into strengths in the long run.

In her contribution, *Karin Scheele*, Member of the European Parliament, stressed how essential it was to further develop the social agenda in Europe – both from the businesses’ and the citizens’ points of view. She believes that the European social model should enforce legislative measures to guarantee minimum social standards and an unconditional minimum income. When it comes to implementing EU directives, Scheele calls for increased “ownership” on part of the Member States, which often seem to expect the European Commission to assume sole responsibility; after all, the implementation and interpretation of the directives lies in the hands of the Member States. In this context it is particularly important that some countries serve as role models, setting “best practice” standards.

Heinz Zourek, Director General of the European Commission, stated that the term “economy” was often

reduced to competitiveness, and that social issues were frequently only viewed in terms of personal contentedness. However, when combined, these two terms stand for the productivity of the system and for its capability to meet demands. Zourek criticized that European social politics were marked by defensive discussions and a lack of clearly defined responsibilities. In Zourek’s opinion, key challenges for Europe are its demographic development, exploding health care costs, the cost of integrating the new Member States, and the question of how environmental damages can be prevented in the future. The underlying global concepts are good, but they must be equipped with instruments. So far, reforms have not been used to implement much-needed changes; they have merely served to maintain the status quo. Unfortunately, reform pressure in Europe is abating. According to Zourek, Germany, for instance, has an almost “erotic” relationship with its current account surplus and has put all other issues second. Other countries are strongly exchange rate-oriented and export reform pressure through depreciations. There are further disparities in the euro area: Countries may no longer be able to use exchange rates as an adjustment factor, but social models are still far from harmonized. Common targets must therefore be defined, and, at the same time, countries must be given enough leeway to reach these targets (=Lisbon strategy). According to Zourek, Europe needs a concerted effort which makes use of synergies. After all, he stated, social and economic affairs are like Siamese twins – they cannot prosper without one another.

The second panel, “Europe and the World – U.S.A., Russia, China and the WTO,” which was chaired by Christian Mandl, Head of Department at the Austrian Federal Economic Chamber, started with a speech by *August Astl*, Secretary General at the Austrian Chamber of Agriculture, who stressed that agriculture was contributing greatly to the EU success story. According to Astl, the EU agricultural policy was reform-oriented and was making up a decreasing share of the EU’s overall expenditures, as subsidies had been cut during the past years. By rendering its agricultural policy more market-oriented, the European Union must ensure its international competitiveness, but the quality of food must be guaranteed as well. Recent developments on the energy markets have opened up a new market for agriculture in the area of renewable energies. Especially renewable primary products can make an important contribution to supplying the European Union with energy. Astl voiced concerns about recent developments within the Doha round of WTO negotiations, as cuts in export subsidies, in particular for milk, starch and sugar, but also the opening of the market could entail severe agricultural problems in Europe. There is, however, hope that world prices for agricultural products will increase in the next few years, partly thanks to rising demand for renewable energies.

Eva Belabed, Member of the European Economic and Social Committee and the Chamber of Labor for Oberösterreich, emphasized that 80% of the world’s population did not have any kind of social protection, be it health insurance, unemployment benefits or old-age provisions. The Euro-

pean Union and the United States, being the strongest economies, have a broad responsibility for global developments in this respect. In Belabed’s view, close cooperation between the United States and the European Union must not be confined to eliminating technical barriers. She deems it necessary to include other stakeholders, such as the social partners, in common regulations and to no longer negotiate such issues merely at the expert and government levels. Overall, the economic performance of the United States was overestimated in the last few years, and weaknesses in the areas of social security, the environment, sustainability and energy, differences in the standards of living and in working conditions, and the enormous current account deficit were neglected. According to Belabed, it is not without reason that Scandinavian countries outperform all other countries in worldwide reports on competitiveness; they have proven that economic growth can go hand in hand with social cohesion and sustainability.

Michael Landesmann, Head of the Vienna Institute for International Economic Studies, emphasized that the European Union faces multiple challenges. In particular, it must deal with dynamic innovations in the United States, the catching-up process in Asia, difficulties in Europe’s energy supply related to Russia, and governance structures in the European Union. The catching-up process in Asia is based on strong export growth with an increasing degree of specialization on high-tech products. In many fields of production, the rest of the world hardly plays a role anymore. All in all, Landesmann believes Asia to already have surpassed the European Union in the global trade

of goods. Another future challenge is energy supply. The EU-15's energy intensity is much smaller than energy intensity in the United States. Besides, the European Union is strongly dependent on imports, both for oil and for gas. Long-term energy supply in the European Union can be ensured through a diversification of supplier countries and through coordinated European negotiation and environment strategies. In general, the European Union needs a stronger degree of coordination in its international economic and political relations according to Landesmann.

Paul Rübige, Member of the European Parliament, pointed out that the globalization process, especially within the WTO, did not sufficiently

take into account the interests of small and medium-size enterprises. He called on the European Union to particularly attend to this important segment of the economy. Turning to energy security, Rübige explained that the European Parliament had shifted its emphasis from energy prices to environmental protection and, lately, to ensuring supply. When it comes to environmental policy, the Kyoto aims may benefit the environment; however, they might have a negative effect on industry, which is increasingly moving to countries with laxer environmental policies. Energy policy should focus more strongly on energy efficiency. Overall, Rübige considers the economy to be one of the driving forces behind EU integration.