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The Future of European Integration – Some Economic Aspects

Good morning Ladies and Gentlemen, I am very pleased to be able to address you today on behalf of Federal Chancellor Werner Faymann, who is sorry for not being here this year and sends his best wishes for a successful conference.

This year's Economics Conference addresses the future of European integration, a topic which is very much at the centre of political discussion these days. While we have managed to make some major steps forward in the integration process lately – such as agreeing on the Treaty of Lisbon – this process has been strongly affected by the financial crisis and its consequences.

Let me start with a few thoughts on some recent developments.

Europe finds itself in challenging times indeed. Greece and Portugal, in particular, are struggling with the requirements of consolidation and massive budgetary restraint. In this difficult situation we must stand by the Greek and Portuguese people, not only because of European solidarity, but also because defending the integration process – and especially the euro – is in our common interest. Greece and Portugal need a perspective for growth and development. Wages are not the enemy of the economy but a key motor, prompting growth and jobs. We must see economic and social policies as connected and equally important areas of European integration.

Consolidation measures must be well balanced, and they must be tolerable for all. They must be fair, and they must not harm economic recovery. Sustainable consolidation will be based on sound economic growth. Drastic cuts in social expenditure may improve the budgetary situation in the short term. But in the long run, economic perfor-

mance would suffer. That's why we need a fair system of burden sharing.

I believe in healthy state budgets, that is to say, budgets that can be flexible in bad times to support the economy, but achieve a surplus in good times to finance the challenges of the future. Having a balanced budget can-



not be our only objective. We also need a fair budget to create jobs and growth. It is clear that the consolidation of national budgets must be tackled in line with the state of the economy. Without growth there will be no budgetary improvement.

Despite some challenges following the crisis, the EU is still in a better position than the USA and Japan, and the euro area is less indebted than these countries. It is true that budget deficits have risen considerably, but in most cases not to an alarming extent. We have managed to preserve the stability of the euro area and that of the EU at large because we remembered what the European idea is all about, and because the concept of European integration is strong and sustainable. However, we still have a lesson to learn here, and we must take political measures to avoid a similar crisis in the future.

Our coordinated approach to boosting the single market was essential in dealing with the crisis. However, we now face considerable challenges in consolidating our budgets while building a socially balanced, sustainable and competitive future for Europe by implementing the Europe 2020 strategy.

This strategy brings together two processes which were separate in the past: the monitoring of budgetary policy in the Stability and Growth Pact on the one hand, and employment, education, social and environmental policies on the other.

I consider this linkage as the goal of our growth strategy: it no longer rests exclusively on an increase in gross domestic product but also on smart, sus-



tainable and inclusive growth. In addition to these very positive elements of the Europe 2020 strategy, budgetary consolidation policy and increased competitiveness clearly continue to be on the agenda. However, two elements should be at the centre of all reforms: firstly, there should be a “symmetric” approach to imbalances, that is, deficit countries as well as surplus countries have to contribute. Secondly, the real economy, people’s lives, must be at the centre of all activities. In the case of Greece and Portugal, this means helping these countries to grow out of the

crisis (and not just reducing deficits and public debt).

The Europe 2020 strategy is implemented for the first time this year, using the new framework of the “European semester”, which will contribute to improved coordination and monitoring of national economic policies.

Austria’s National Reform Programme, which we have just submitted together with our Stability and Convergence Programme, shows our clear focus on the aims of the Europe 2020 strategy, in addition to consolidation.

The Euro Plus Pact, which was recently adopted to promote competitiveness, increases employment, improves the long-term sustainability of public finances and strengthens financial stability, provides for concrete policy measures to be set by individual Member States.

For Austria it was of great importance in this context to ensure the participation of the social partners and respect for collective agreements. Austria will continue to fight for a European economic governance that serves the interests of European people, including qualitative growth, full employment and a strong European social model. We must place more and better jobs at the top of the European agenda and at the heart of EU economic governance.

Regarding pensions, Austria has successfully advocated a focus on the *effective* retirement age. Austria considers the sustainability of pensions and health services to be central to fiscal consolidation. However, focusing on *sustainable* public pension systems is not enough – we also need to make sure that they are adequate.

Austrian pension policy will continue to depend on a strong first pillar, and the recent crisis proves us right in this approach. And let’s not forget that

the issues of sustainability and population ageing not only concern *public* pension systems, but they are equally important for company and *private* pension schemes. Effective supervision and regulation of financial markets with a focus on security is what we need here.

Bold steps have been taken in the field of financial regulation with new supervisory structures, the regulation of hedge funds and the Capital Requirements Directive. But a lot of work still needs to be done if we want the financial sector serve the real economy. After all, it was non-transparent financial products that caused the financial crisis. Therefore, we must do more to close the remaining gaps in financial regulation and make every effort to prohibit high-risk financial products. Improved consumer protection is needed here, as well as better risk management by stronger and more independent supervisory bodies.

The need for EU action is greater than ever in order to regain the trust of EU citizens. In this context, a financial transaction tax will help to stabilise the financial sector on the one hand and bring in additional revenue for social progress, on the other. Austria sees the financial transaction tax as part of a comprehensive financial market package. I am pleased, therefore, that the European Council noted in March that the introduction of a financial transaction tax at EU level and internationally should be explored and further developed.

It is important to highlight again and again the interaction between general economic policy – including monetary, fiscal and wage policies - and the development of labour markets. As Minister of Labour, I am proud of the fact that, together with the Netherlands, Austria has had the lowest unemployment rate in the EU for several

months now. In this field we are European champions.

Now as the end of the crisis is in sight, but public sectors are still heavily burdened by measures against the crisis, we must not stop pointing out that excessive consolidation measures would slow down the recovery of the labour market and therefore, the entire economy. Special emphasis must be placed on youth employment, which is strongly affected in most Member States. Employment opportunities for young people need to be provided. Austria has created and continues to offer a job guarantee for young people, because young people need a chance of sustainable integration into the labour market, particularly in difficult times like now. And I believe we should also work on giving young people a legal right to get the education and training they need for this.

We still face increasing unemployment in Europe, and many Europeans are still confronted with great social hardship. However, these people who are now under so much pressure did not cause the economic crisis. Consolidation must therefore not mean taking even more from those who have already lost so much.

We must improve working conditions for all European workers and fight against undeclared work, as well as social and wage dumping, by means of legislation and within the social dialogue.

Minimum standards have always been a core element of the European social model, and they are still relevant today. We must work on raising these minimum standards for all European employees so that countries with high standards will not come under pressure. On the contrary, our aim should be a gradual increase in social standards across Europe.

In Austria we have recently passed the law against wage- and social dumping which is aimed at ensuring equal wage conditions for all employees working in Austria. The new law, which was introduced in connection with the opening of our labour market on the 1st of May, will facilitate fair competition among Austrian companies, as well as with companies not established in Austria.

Allow me to say in conclusion that my guiding principle for the future is to secure employment, improve social cohesion and ensure social peace. Only social peace can guarantee democracy and the peace project of the European Union.

Ladies and gentlemen, thank you very much for giving me the opportunity to address you today. I wish you all the best for today's conference.