The European Agenda

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Foreword

So much we need to do. So much we could do. Europe is challenged, both when it comes to our fundamental values and peace and security.

Russian warfare in Europe is a breach against international agreements and international law and a violation of the sovereignty and freedom of Ukraine, but also a threat to all other countries in the focus of the Putin regime, undermining the European peace order.

ISIS is emerging as an evil empire in a new form, warring and terrorising, the logic of power making atrocities and contempt for human life a norm. It is destabilising a region, with national structures artificially formed a hundred years ago now falling down together with civilisation. The destabilisation is a threat in itself, the waves of refugees a human tragedy and a challenge for any civilised society, while the terror and the asymmetric warfare are projected against democracy regardless of borders.

The economic crisis means unemployment and shrinking prosperity, undermining social cohesion and inclusion, fostering tensions between groups of people. It weakens our leadership and limits our capacities as well as our room for manoeuvre in a time when we need to navigate into new territories of policies and visions.

Poverty, stagnation and jobless people give room for tensions and conflicts of the kind that the European Union is formed to eliminate. Extremism, hate, discontent, frustration and centrifugal powers of our societies and the Union will never be defeated unless we can show that growth can come, prosperity increase by hard work and innovations, freedom can give room for responsibility and respect and cooperation for reconciliation.

The European Union is the world's biggest economy. Together with the US we form a transatlantic economy corresponding to nearly 40 trillion dollars, compared to a shrinking Russian GDP of less than 2, or the growing GDP of China still not more than 9. So the magnitude of power of the leading democracies creates a foundation on which to defend our values in all areas where economic strength is fundamental. This applies to military power to defend ourselves, to economic development and free trade do defeat poverty and gain prosperity, to political influence for all those who in weak democracies look for freedom as an opportunity and prosperity as a proof.

To take the lead of the digital economy, to reform the environmental agenda with new technologies and opportunities instead of restrictions and limits, to fight the greenhouse effect, to show the way for market economy and open societies.

This can't be done without economic resources, innovative leadership, a competitive industry, leading start-ups, taking benefit of the energy and creativity of citizens, a liberalisation of men and women from old and restricting categories to individuality that gives force. We need reforms. To awaken Europe. To go back to our most fundamental agenda of open borders, competition, social inclusion, integration and internal market where no borders can hinder the constructive energy of millions of Greeks, Swedes, Estonians, Germans, Brits and all others. It's only if we believe we are already doing our best that we should be complacent and turn away from reforms. If we know we can do better and understand we can do it, then the map is clear. A European Agenda. It is my hope that the reflections in "A European Agenda" will put forward a debate about the big issues where we can make Europe do the best. Europe can only be the leading economy of the world by going forward, by reforming, not by preserving and not by hesitating. If things are to proceed the way they have proceeded, then things will turn out as they have turned out.

We can do better if we want to.

Gunnar Hökmark
Member of the European Parliament

Contents

1. Choking the engine

If you are old enough, you have probably been there. It is a cold morning and the car will not start. So we decide to choke it. In order to increase the share of petrol that goes from the carburettor into the cylinder, we reduce the amount of air with a choke valve, thereby enriching the mixture to make the engine start. It usually works. But in the worst-case scenario, which does not happen too often, the engine is flooded with petrol and will not start no matter what you do.[1]

This method is meant to alleviate a temporary problem, i.e. that the otherwise well-functioning engine is too cold. However, it will not make a car that is in generally bad shape go any faster. In order for that to happen, we need to upgrade the engine. Choking a car does not give it more horsepower. It will only be even more flooded and even more difficult to start.

On a similar note, it is no use pumping in more petrol into the tank of a car with a dysfunctional engine. Instead, we need to repair or upgrade the engine.

An example from the Nordic climate offers a similar metaphor. When the car is stuck in inches of snow, and the wheels are skidding, you tend to gas even more in the hopeful wish of getting out of the snowdrifts but the result is rather that you dig yourself, or the car, even deeper down into the snow.

If you don't have the engine, if you don't have the friction, it does not matter how much you choke or push the gas pedal. The engine will flood and you will end up with more problems than you had at the outset. And the best you can hope for is for the engine to dry up and for the snow to melt away.

Europe's economy is in bad shape. One of the many reasons for this are long-term deficits, either in public finances or in current account balances because of undermined competitiveness and decreased growth combined with increased spending. Flexible monetary policies in the US and in Europe provided cheap money in large amounts allowing for increased consumption and investments without asking for returns.

And for years now, we have been trying and discussing various measures to get Europe's economy going so as to lift our continent out of its current malaise. First there were the long-term deficits, which were sometimes called fiscal

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[1] *True, this is mostly something that happened decades ago. Nowadays, most cars have fuel injection.*

stimulus. When the financial troubles arrived, these deficits were increased in order to avoid the economic crisis, thereby creating the debt crisis. By trying to skip the downturn with the tools that at least partly brought us here in the first place, we dug ourselves even deeper into the debt drifts, allegedly stimulating growth.

Then we saw quantitative easing, the purchase of government bonds and negative interest rates. Together with deficits that are still too high to allow for public investments, the 'Juncker Plan' was launched with the hope that public investment plans would help attract private investments and growth. Some central banks have tried to raise inflation by introducing negative interest rates and making money cheaper than ever in the hope that increasing prices will create growth by itself, as if lower oil prices and the higher productivity we are aiming for were a problem.

But none of these actions, however good or relevant they might be for the purpose, address the real issue for European growth: how to attract money for investments, how to get investments to attract money and how to make investments profitable. In the end, that is the only way to strengthen the growth capacity and competitiveness of the European economy. In the absence of reforms, the hope that the supply of cheap money will solve problems is dangerous because it moves our focus from difficult reforms to the illusion that problems can be solved easily just by increasing demand.

It is like believing that a clunker can be turned into a brand new BMW by giving it extra petrol. But without the engine of growth power and the friction of competitiveness you will be stuck, flooded and debt-burdened deep in the drifts of loans. We are thus back to square one, with the same engine, but less friction and less money to pay for the petrol. End of metaphors.

The idea that deficits can act as stimulus and compensate for lost competitiveness and lost investments has caused us a lot of problems. We have put our hope in simple solutions being able to overcome problems by stimulating the economy through loans, thereby postponing and delaying reforms that would support competitiveness and modern structures. This strategy has been carried out in a global economy that has accelerated its development.

By overspending we have increased our debt burden and the costs of servicing the debt. At the cost of welfare and investments, we have increased the uncertainty of our economies and decreased the trust to invest. Interest rates have increased, so real investments have become less profitable and have attracted less money, while asset values have risen because of the amount of cheap money available. And when there was no money left, countries and people were forced to take on the burden of the real austerity, which faces us when there is no money left.

Thanks to European cooperation, the crisis economies have been able to borrow money to avoid defaults and societal disasters, but the focus on spending instead of reforms that we have seen during the last decades has deprived us of millions of jobs, social security for individuals, social trust and a web of trust that binds societies together. In a number of countries the worst has passed but the problems are still there.

Also, we are still facing all of those people who promise that we can stimulate our way out of the crisis by ignoring the problems by choking and pressing the gas pedal without dealing with the real issues. All these easy solutions, that are still being promoted today in so many countries and in governments – by the irresponsible Syriza government in Greece or the complacent French – are only promising one thing, spending the last money and the last hope, digging us deeper in the drifts of unemployment, stagnation and lack of hope for the new generations.

It is all pseudo economics. None of these measures, be they stimulus by deficits, trying to overcome problems and economic cycles by increased spending in bad times, negative interest rates, or quantitative easing, actually addresses the underlying problems that the European economy in general and some European economies in particular are facing. We are trying to use the choke in order to stimulate an engine that badly needs an upgrading. We need a new agenda.

Europe needs an agenda that does not only identify and discuss the real problems and the underlying causes of our dire straits, but also one that suggests credible solutions. It is actually quite simple: a lack of competitiveness that makes our countries, firms and people less well off than they would otherwise be requires reforms aimed at making the economies more competitive. Period.

2. The crisis

What sort of crisis?

Europe has recently gone through one of the most severe economic crises in the modern era. And a lot of people have suffered greatly. In 2013, more than half of all young Spaniards were unemployed. In Greece, food aid is distributed in the streets. In 2012, 400 000 persons in greater Athens were estimated to visit a soup kitchen daily. Suicide rates have skyrocketed.

The crisis is affecting people's lives and social stability. But still, it is not the reform policies that are causing this, but the lack of reforms and the over-spending that has consumed not only the money governments had but also the money they didn't have. There is no type of austerity as draconian for a society and for the individuals as that which you are forced into when you have run out of money and out of loans and when you have no room for manoeuvre and time is running out. No doubt about that.

But sometimes, it is useful to put things into perspective. In the debate, one sometimes gets the impression that Europe as a whole is still in deep crisis. That is not really the case.

In fact, eight Member States had the same or lower unemployment rates in 2013 compared to 2009. Only eight countries had significantly higher rates of joblessness.[2] Even though a lack of growth could be seen as a crisis, it is important to note that the average GDP per capita of the EU has not changed all that much since 2008. As a Union, we are not much worse off now than in 2008, despite some of the headlines in the press.

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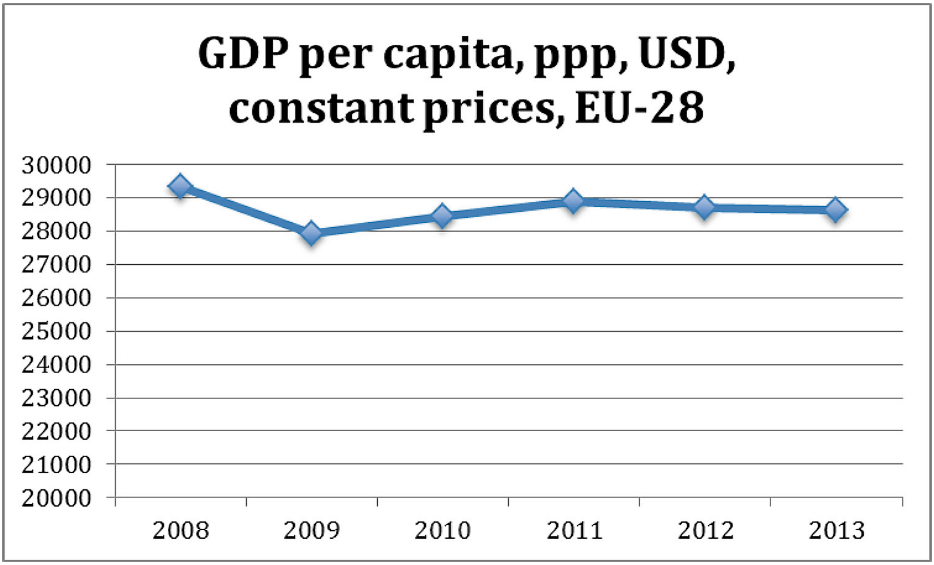
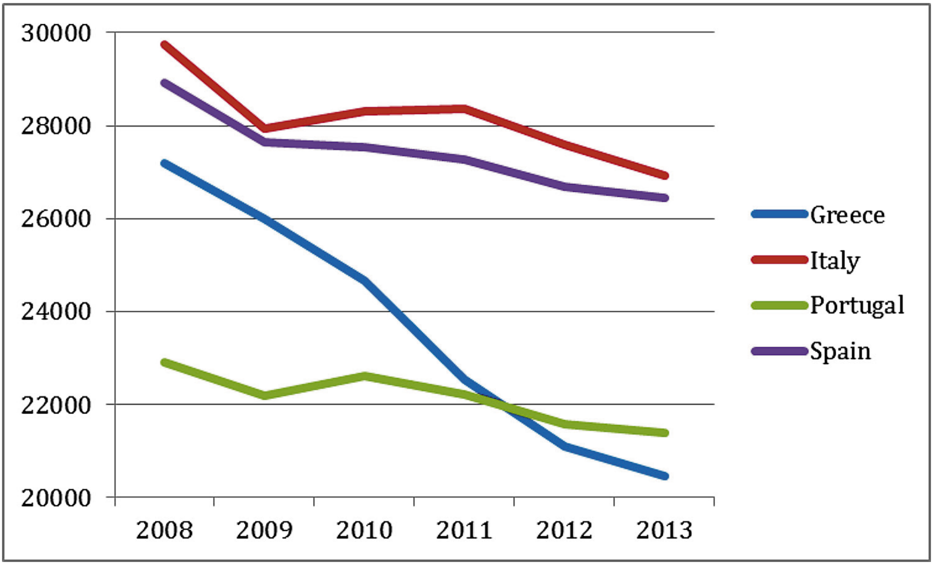
[2] *The six countries with lower unemployment rates in 2013 than in 2009 are Estonia, Latvia, Lithuania, Sweden, Germany, the UK and Malta. Finland was on par with 2009. The countries with a negative difference exceeding three percentage points were Bulgaria, Greece, Spain, Croatia, Italy, Cyprus, Portugal and Slovenia.*



Source: OECD.

In a few countries, however, the development has been much worse. Incomes have fallen in all Mediterranean countries but the most drastically in Greece.

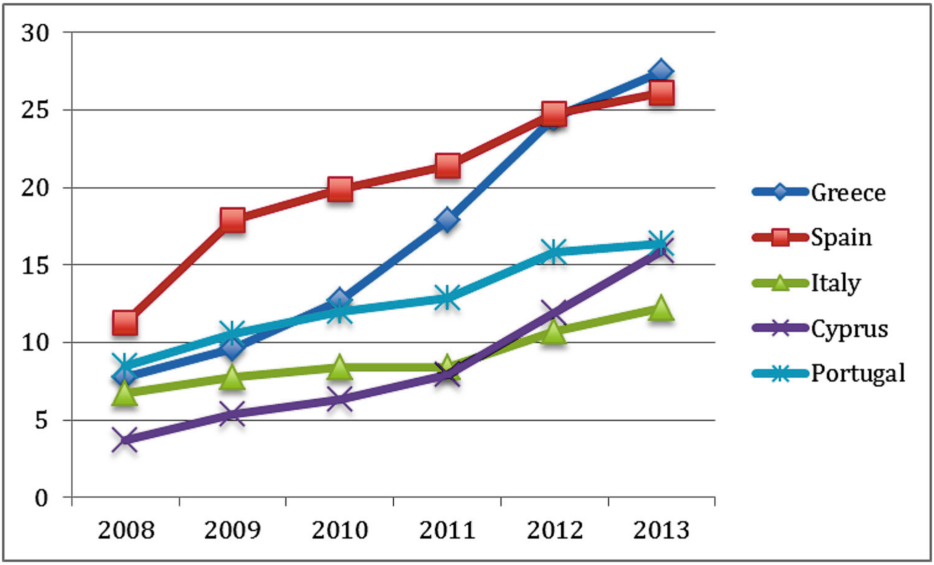
GDP per capita, US dollars, ppp, constant prices



Source: OECD.

Also, unemployment has risen in these countries.

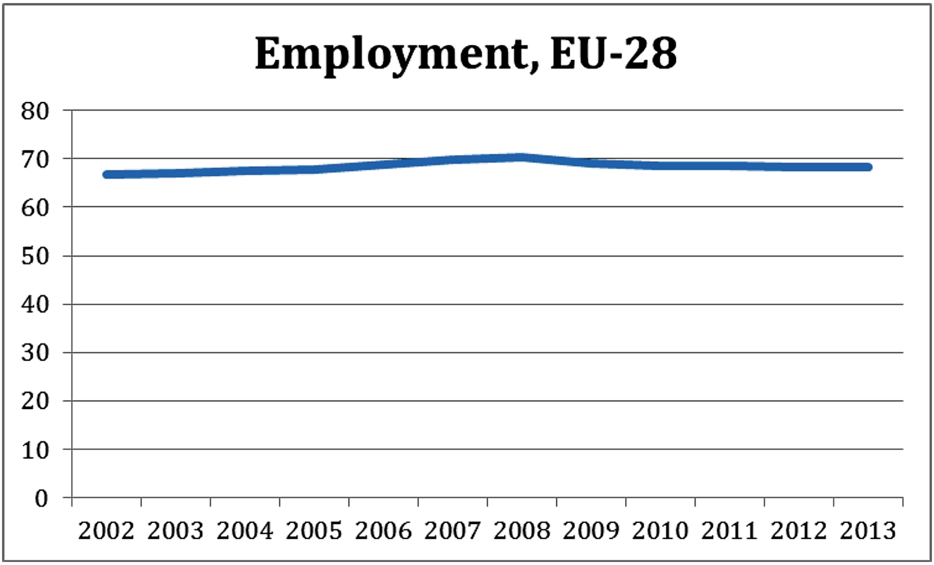
Unemployment, % of population aged 20-64



Source: Eurostat.

Unemployment is the most common indicator of how successful a country is when it comes to jobs. But it is not certain that it is the most relevant one. If a lot of people have left the labour market, or have never tried to enter it, then the unemployment figure is of limited value. Another way of looking at an economy's strength in terms of jobs, and in fact an economically more important one, is to consider its employment rate.

And the employment data of EU-28 it is not that bad at all. In fact, in 2013, a higher proportion of the working age population had a job than in the beginning of the 00s.



Source: Eurostat.

In fact, a number of EU countries, such as the UK, Germany, Hungary and Austria have higher employment rates than ever.[3]

The causes of the crisis

There has been much talk about deficits these last few years. It is often argued that deficits are not the problem, that they were all caused by the financial crisis and that it is all the fault of capitalism anyway. It is not that easy, though. And in any case, they were not caused by too much of market economy, rather by the opposite, by too high taxes and even higher public spending.

Deficits and debt

The average government debt in the world rose from 40 per cent of GDP in the mid-1970s to over 100 per cent in 2000. The lion's share of this debt was built up before the financial crisis. In fact, in 2007, the year before the collapse of the Lehman Brothers and the largest fall of the New York stock exchange since the 1930s, world government debt was higher than ever before, with the exception

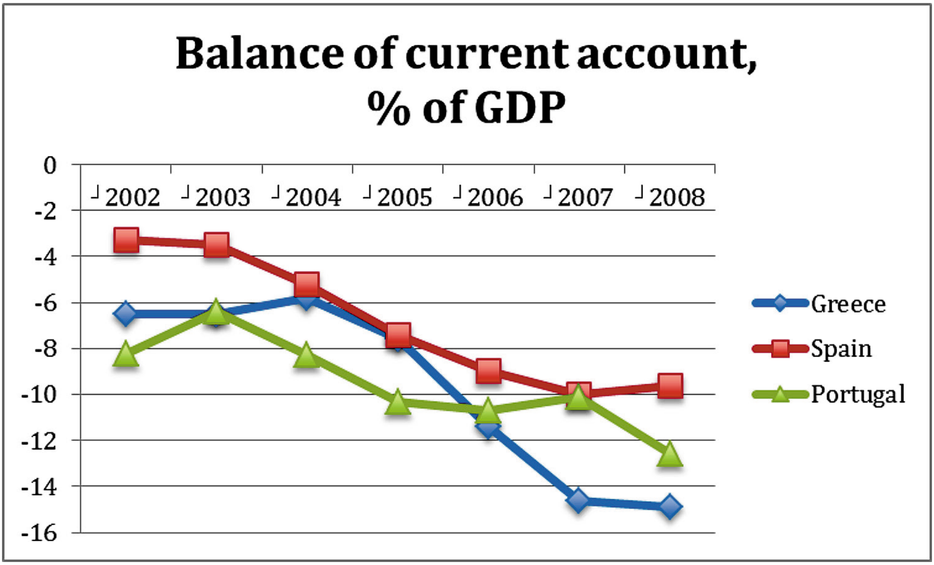
[3] According to the BBC, the employment rate of the UK is higher ever since 1971, when the Office of National Statistics started to publish data on the matter. And the other three countries had higher employment rates in 2013 than in any earlier year covered by Eurostat.

of WWII. The argument that the debt crisis was created by the financial crisis simply is not true.[4]

The many years spent accumulating debt also means that we experienced many years of fiscal stimulus, since that is what running a deficit actually means. Those deficits concealed the need for reforms. Obviously, this stimulus didn't bring about growth. If that were the case, our most debt stricken economies would have been our most competitive and growing. We have really tried stimulus by deficit. Persistently. Year after year. Again and again. For each new phase of the crisis.

Current account deficits

It is true that countries like Spain did not have large budget deficits and huge amounts of debt prior to the crisis. However, the countries that had the most serious problems at the peak of the crisis had one thing in common, though, they all ran large current account deficits. This is particularly true for the three Mediterranean countries that were most hurt by the crisis.



Source: Eurostat.

[4] *Carlo Cottarelli, Presentation at Panel on "Stimulus os Stymied? The Macroeconomics of recessions", American Economics Association Meetings, San Diego 6, 2013. The Economist, Reinhart-Rogoff Reprise, 23 April 2013. <http://www.economist.com/blogs/freeexchange/2013/04/debt-and-growth-0>*

The current account is the difference between what is produced and what is consumed in a country. Running a current account deficit means that you spend more than you earn.

Up until 2008, countries were able to finance their current account deficits internationally, by importing capital, that is, to lend money from foreign investors.

Greece in particular had been living way over its productive capacity, financing its lavish lifestyle with money from abroad. But when the financial system broke down this was no longer possible. The current account deficits were therefore turned into government deficits that then accumulated into debt.

Cheap money

There is no doubt that the financial crisis was at least partially caused by lax monetary policy. When the New York Stock Exchange crashed on Black Monday of 1987, Alan Greenspan, the then Chair of the Federal Reserve, reacted to the crisis by aggressively lowering interest rates and by pumping liquidity into the system. This set a precedent for how the Fed would react to later crashes, e.g. Mexican peso crisis (1994), the Asian financial crisis (1997), and the Dot-com bubble (2000). After 9/11 2001, the Fed reacted the same way.

Together with substantial incentives created by various government measures, such as tax-deductible mortgages, and the aggressive lending practices of government-sponsored institutions like Freddie Mac and Fannie Mae, these policies created a housing bubble that contributed to the crisis of 2008. Between 2000 and 2005 the value of single-family homes increased by USD 8 000 billion.[5] Greenspan saved the world economy from the consequences of the Dot-com bubble by creating a new bubble.

In 2006, when Greenspan resigned from the Fed, *The Economist* wrote:

In December Mr Greenspan was made a Freeman of the City of London. One of the traditional perks of this honour is that he can be drunk and disorderly without fear of arrest. The snag is that his policies have also encouraged drunk and disorderly asset markets and intoxicated consumers. When the party ends, Mr Greenspan will not be there to clean up the mess. But end it surely will.[6]

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[5] *Greenspan, Alan (2008), The Age of Turbulence: Adventures in a New World. New York: Penguin books, quoted in Norberg 2009.*

[6] *The Economist 2006.*

Furthermore, ultra-easy borrowing conditions have allowed governments to stall on supply-side reforms, thereby undermining the prospects for real economic growth in the future.

3. Reactions to the crisis

What sort of austerity?

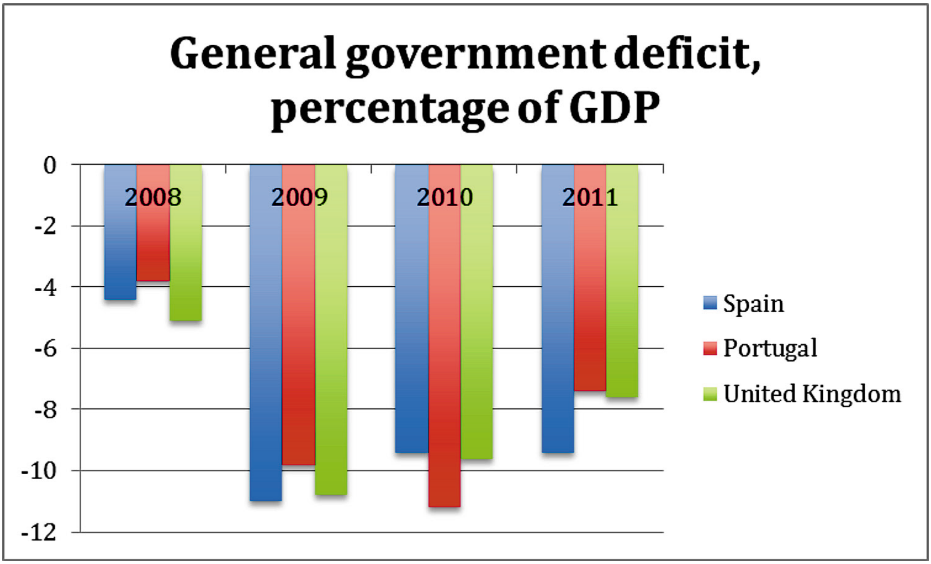
For a long time now, there has been a debate about whether austerity works. Despite tightening budgets, growth and employment have not returned, it is argued, and now it is time to start spending. This argument misses two important points.

First, there has not really been much economic austerity as such at the macroeconomic level. What we have seen are rather adjustments, although these have influenced people's lives, jobs and social security because they were based upon borrowed money instead of sustainable growth.

Let us look at the spending of the PIIGS (Portugal, Italy, Ireland, Greece and Spain) prior to the crisis, from 2000 to 2008. During this period, their combined general government expenditures rose from EUR 775 billion to EUR 1.3 trillion – a 75 per cent increase. Between 2008 and 2011, spending actually increased by six per cent.[7] Southern Europe's problem has not been too little spending, but too much.

Second, when the crisis began countries such as the UK, Spain and Portugal tried to overcome it by deliberately increasing spending, thereby building up their debt burden even more.

[7] *Gregory 2013.*



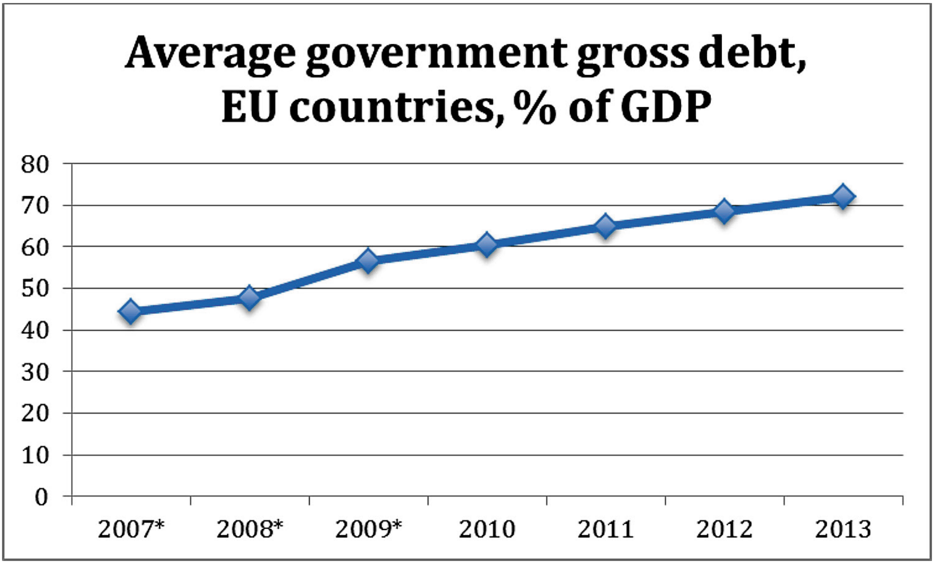
Source: Eurostat.

They thought it was possible to avoid the downturn by increasing public expenditures. Swedish Social democrats lauded these policies. In the proposal for the general government budget in 2009, the then party leader Mona Sahlin argued that Sweden was falling behind the rest of Europe since the government budget in her view did not spend enough money, and mentioned Spain's policy as a role model for Sweden.[8] The rest is history as they say.

Average deficits in EU Member States have gone down since the initial years of crisis response, from 6.5 per cent in 2009 to 3.5 per cent in 2013. But that's a limited achievement: deficits are annual shortfalls in revenue compared to expenses. Shrinking deficits do not translate into lower debts: shrinking deficits mean debts are still growing, only less rapidly than they did before. The average government gross debt of all EU countries rose from 44.3 per cent of GDP in 2007 to 72 per cent in 2013.[9]

[8] *Sahlin 2009.*

[9] *Source: Eurostat.*



Source: Eurostat
* Estonia not included.

As German economist Georg Eber expressed it 'I see austerity everywhere, but not in the statistics'.[10] Austerity from an economic point of view is what you get when you spend no more than you make, minus what you need to pay to service the excess spending of earlier years.

This is not to say that the economic crisis has not hurt people. We have seen how many people have experienced drastic cuts in living standards and there has been widespread social unrest. Populists to the right and left offering cheap solutions to difficult problems enjoy growing electoral support in many countries.

But austerity – consuming less than you earn – is a consequence of having consumed more than you earn for a long time. And the problem with government-imposed austerity is that it hurts the most vulnerable groups, such as the unemployed and the poor. This is because the cutbacks take place where possible, where spending can be cut back, which happens to be in programmes like unemployment insurance schemes and social welfare payments.

[10] *Erber 2013.*

We also need to remember that despite the Reinhart-Rogoff controversy, high debt is still associated with lower economic growth.[11] But cutting deficits and reducing debt is a necessary but not sufficient condition for growth. We also need reforms for increased competitiveness, because the only way out of the crisis is growth, and growth requires enhanced competiveness.

Greek mythology

The election victory of leftist populists Syriza, which formed a government with the extreme right-wing party Independent Greeks (they don't have much in common, other than a deep-rooted populism and their anti-European stance), has received an enormous amount of attention. In the debate, there are plenty of myths about the Greek crisis and that the rest of the Union has supposedly forced austerity upon the Greeks. Let me debunk a few of these.

First of all, it is important to note that transfers from the EU are still greater than Greece's debt service. Greece is still a net recipient in the European financial redistribution story. The Greeks are thus not giving money to the rest of Europe. Instead, they are still receiving money.

Source: Daniel Gros, CEPS

Second, even though they have much lower (gross) debt-to-GDP ratios, countries like Ireland and Italy spend more on their debt service than does Greece. In fact, Greece's official foreign debt service is as low as 1.5 % of GDP.[12] Debt

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[11] *As Anders Åslund pointed out in the Financial Times, even the Amhearst researchers that found the computational errors in the Reinheart-Rogoff paper found that countries with debt levels over 90 per cent of GDP grow 0.8 percentage point slower than countries with debt levels between 60 and 90 per cent. Åslund 2013.*

[12] *Gros 2015.*

service is not Greece's major problem. Instead, the main culprit is the country's lack of competitiveness, which is due to the lack of structural reform.

Third, Greece's austerity is not imposed upon the country from the outside. The argument from the leftist Greek government has been that if only the country was not forced by Brussels (or Berlin) to maintain austerity, it could have gotten its economy going by running even higher deficits.

This reasoning is flawed, since it assumes that the Greek Government would have had access to other sources of financing other than public institutions (i.e. mostly EU tax payers). But Greece would have been forced to rely on public institutions for further loans, since no private lender has enough confidence in the Greek Government or the Greek economy to lend it money. In fact, without the loans from the European Commission and the IMF, the Greeks would have had to cut public expenditure much more drastically than they have already done.[13] The support from EU has softened the austerity measures forced upon Greece by the economic reality that you can't consume more than you earn. And it has given time, and time that has not been used, for reforms and adoption to reality.

In contrast to other economies in crisis, Greece's main problem has been that Greek politicians have acted as the responsibility for the crisis were some one else's, and that this someone else has to take the responsibility to solve the crisis, meaning that no one has taken the responsibility to take the actions only the Greeks themselves can take.

The lunatic Greek spring, the negotiations about what others need to do more in order to allow the Greek government to proceed as always, the referendum with the perspective that someone else would help more if you said no to the help that was offered and the final (sic!) agreement with the Greek Prime Minister who says he doesn't believe in the necessary reforms. What's more, these were reforms similar to those that – prior to the Sipras government taking office – had halted the negative development and created an upcoming economy that was close to being able to finance itself on international markets. The Tsipras government not only but broke with this agenda, it also broke the remaining trust in the Greek leadership. The belief that someone else is re-

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[13] *Ibid.*

sponsible and must take responsibility does not only undermine the ultimate meaning of democracy as the way to take responsibility for one's own house. For sure, it has also undermined the Greek economy more than anyone could have thought was possible in the end of 2014.

Monetary policy

Whereas fiscal stimulus is a policy tool that is in the hands of the executive or legislative branch of the government, there are also monetary policy tools – in the hands of central banks – that can be and are used.

For quite a long time now, European central banks have made more money available in the financial system. Interest rates have been cut very low. A number of countries even have negative interest rates. That makes it easier to borrow money and should thus stimulate investment and jobs. Yet, it hasn't worked.

"Never in recent economic history have interest rates been so low for so many for so long."[14] That is how *The Economist* magazine started a piece in 2013, arguing that six years of cheap money had still failed to create any growth. The low-cost loans have not been transformed into productive investments. This is because interest payments are such a small part of a company's decision to invest. In Japan, interest rates have been close to zero for a decade, without investment taking off.

Rather, excessively low interest rates entail a danger. When borrowing money is easy investors focus on potential gains and tend not to pay enough attention to risk. There is plenty of examples in history of how cheap money has contributed to creating bubbles that burst, not least in real estate. Ireland and Spain are two European countries that have recently gone through such experiences.

In fact, leading authorities on the matter, from the Bank of International Settlements to the former Chair of the Federal Reserve, Ben Bernanke, and Bank of England Governor Sir Mervyn King, have noted that the present lax policies might in fact create yet another bubble. Stock exchanges go up without any underlying substantial economic activity. Boosting asset prices is dangerous.

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[14] *The Economist 2013.*

Let me use a fictitious example of a company considering buying a business using money borrowed at a ten per cent interest rate. The price of the purchase should be roughly the sum of the expected earnings over the coming years. If you buy a business that makes EUR 10 million per year you should pay EUR 100 million at the most for the company. The yield on the investment is ten per cent per year (annual earnings/purchase price). If interest rates are five per cent instead, then the price of the purchase should be EUR 200 million. A company with the same production capacity, the same market share and the same products has artificially doubled its value.

A BIS report in 2014 warned that 'Countries could at some point find themselves in a debt trap: seeking to stimulate the economy through low interest rates encourages even more debt, ultimately adding to the problem it is meant to solve'.[15]

Too low interest rates lay the conditions for malinvestment and take away the fundament for real investment, growing firms and more jobs. The result is social unrest, when people cannot find jobs to provide for themselves and their families.

Also, central banks have turned to quantitative easing (QE) by propping up the capital that commercial banks hold at the central banks. The money supply increases and inflationary pressure is created. The idea is to stimulate the economy and increase lending and thereby investment.

Quantitative easing can be a good tool to solve monetary problems such as a lack of capital. Although the jury is still out on QE in Europe, it is clear that QE will never be able to solve Europe's structural problems of lack of supply-side reforms and insufficient competitiveness. And we should not pretend that this is the case. QE can buy you time to reform but never buy you the opportunity to avoid reforms.

Between 2001 and 2006, the Bank of Japan (BoJ) pursued QE policies. The measures neither got the economy going nor stopped deflationary pressure on the Japanese economy.[16]

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[15] *http://www.bis.org/publ/arpdf/ar2014e_ov.htm*

[16] *Economist 2009.*

In the discussion on deflation, we must also remember that it is not necessarily a bad thing. Deflationary pressure that comes from a lack of aggregate demand could be negative for the economy, but if prices are low because of increased productivity and globalisation, it is a good thing. It just means that consumers get more for their money. Consider Internet broadband services where providers now offer speeds 20 times faster than five years ago at the same price. That is not a problem for our economies.

Higher productivity, a growing global economy and the lower prices of raw materials are not hindering growth, rather the other way around; they are signs of growth and strengthened competitiveness.

Proponents of the present QE measures argue that the Japanese case was different and that the measures taken in the US and Europe now are of a different nature. Whereas the BoJ policies focused on the liability side of the balance sheet, the present policies are aimed at the asset side. However, according to Shigenori Shiratsuka, one of the leading economics researchers at the BoJ, that is a distinction that is difficult to make, given how closely the asset and liability sides of central banks' balance sheets interact.[17]

Alan Greenspan has argued that QE played little or no role in the real US economy, as regards growth and jobs, which were the aims of the policies. However, when it comes to boosting asset prices, thereby helping the rich, the policies were 'a terrific success'.[18]

There is a lot of talk about a lack of policies to address the crisis. Very few people, however, have anything to say about the policies that led us into the crisis. And as we saw earlier, cheap money was one of the reasons for us being in this position in the first place.

Throwing cheap money at an uncompetitive economy is not only useless, but can create problems. It is like trying to give the horsepower of a BMW to a Fiat by choking the engine.

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[17] *Shiratsuka 2010.*

[18] *Derby 2014.*

Now, eight years after the collapse of Lehman Brothers, it is difficult not to see the parallels between the run-up to the crisis and the present development. We have to be wary not to repeat the same mistake once again.

The Juncker Plan

Different sources give different numbers, but there seems to be an investment deficit in Europe. According to the European Commission, between EUR 270 and EUR 340 billion less is invested in the EU now, compared to before the crisis.[19] The Brussels-based think tank Bruegel estimates the gap to be EUR 260 billion,[20] whereas the German Institute for Economic Research (DiW Berlin) argues that the gap is EUR 180 billion annually.[21] Any way, investments in Europe are far too low and need to be much higher. It is against this background that the President of the EU Commission, Jean-Claude Juncker, has launched an investment plan, where EUR 21 billion in EU funding is supposed to unlock private investment worth over EUR 300 billion.

An investment gap does not necessarily imply that there is a lack of capital, however. In fact, there is no lack of money for investment in Europe. On the contrary, there are hundreds of billions of euros in Europe's large corporations just waiting to be used.

Daniel Gros, head of the Brussels-based think tank CEPS, argues that there is capital of more than EUR one trillion in Europe's banks. The very ideas that (1) Europe's problem is a lack of capital and (2) that public investment will stimulate private investment and hence create growth are, in his views, wrong.[22] I agree.

We need to implement policies where people without employment can more easily enter our labour markets, where new sustainable jobs can emerge in start-ups as well as in our established industries, where investments can be sustainable and profitable and where the frameworks for public finances, private investments, increased competition, entrepreneurship and the internal market are stable. Jobs are not created by increasing asset values, building up new bubbles, making real investments less profitable than asset values, but by reforms that increase the supply of investments, capital, and labour into our societies.

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[19] *<http://ec.europa.eu/priorities/jobs-growth-investment/plan/index_en.htm>*

[20] *<http://www.bruegel.org/nc/blog/detail/article/1486-measuring-europes-investment-problem/>*

[21] *<http://www.diw.de/en/diw_01.c.469156.en/topics_news/growing_out_of_the_crisis_diw_berlin_proposes_european_investment_fund.html>*

[22] *Gros 2014.*

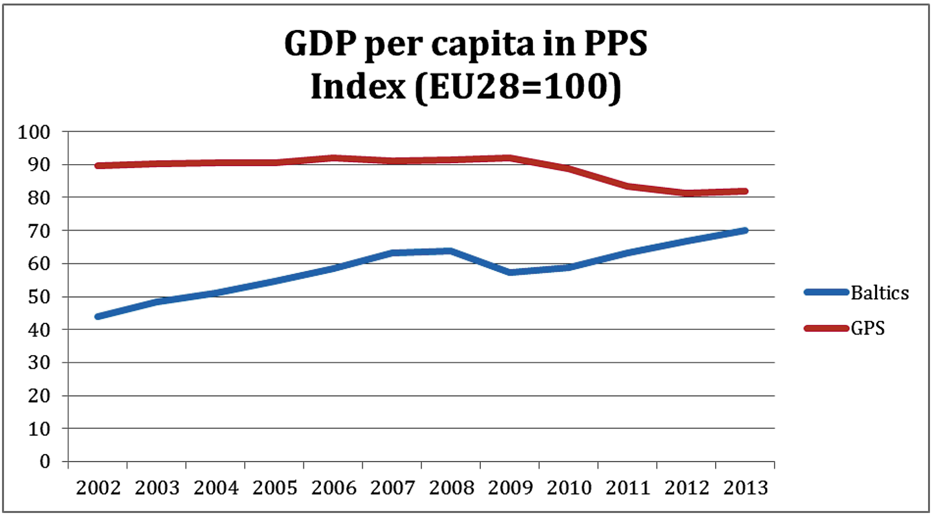
4. New lessons learned

At the beginning of the post-crisis discussion, there was much confusion. Not many people really understood what was going on, something that was reflected in the suggestions for measures to be taken to get us out of the crisis. Now, however, many years have passed and we have an enormous amount of empirical data to lead the way for us.

The Baltics vs PGS

One way of looking at how countries managed the crisis initially is to compare the three Baltic States with three Mediterranean ones, Portugal, Greece and Spain (PGS). Whereas the former carried out determined policy adaptations, the latter decided to spend themselves out of the crisis without fundamentally changing the way their economies function.

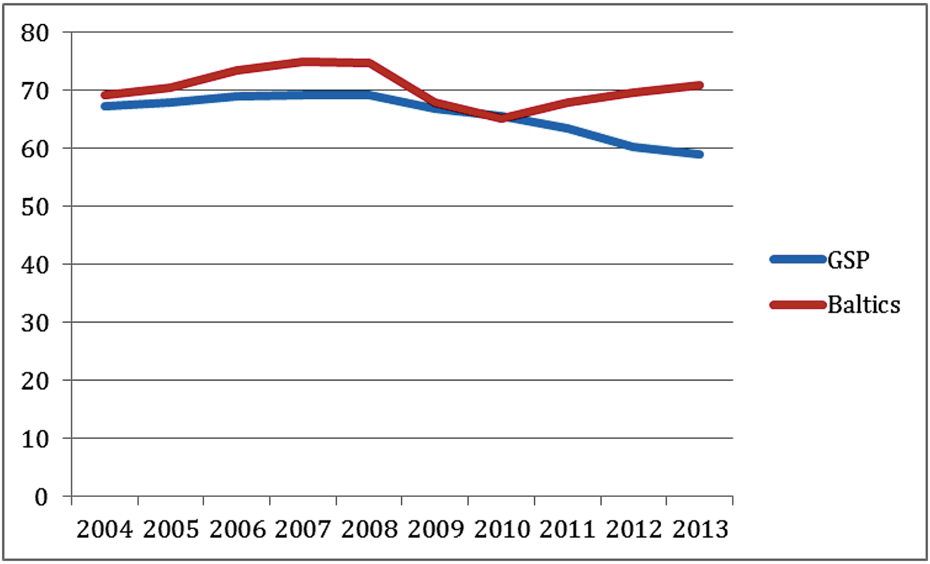
The consequences were two very different development paths. Prior to the crisis, the Baltic States on average were much poorer than the PGS average. And in 2013, the gap was much smaller.



Source: Eurostat

Also, consider the development of the employment rates of the two regions before, during and after the crisis.

Employment rate, % of population aged 20-64



Source: Eurostat.

Lithuania

Let me use Lithuania as an example of how early, swift and decisive reforms can lift a country out of crisis. The most impressive steps taken were the fiscal adjustments when the economy plummeted. Harsh expenditure cuts, such as lowering public wages, kept public finances in order. Four fifths of the adjustment consisted of lower spending.

The was a fear of devaluation, since the litas was pegged to the euro in line with the country's plan to join the common currency. However, both the country's leadership and its population displayed substantial amounts of character and determination, managing to make the economy competitive without devaluation, not least through the restructuring of the tax system, reforms of social benefits and pensions as well as measures to make it easier to run a business. The recession that many expected would be long and difficult lasted only one year.[23]

In fact, Lithuania is a textbook example of financial crisis management. In December 2014, consultancy practice Ernst & Young, forecast that in 2015

[23] *Åslund 2011.*

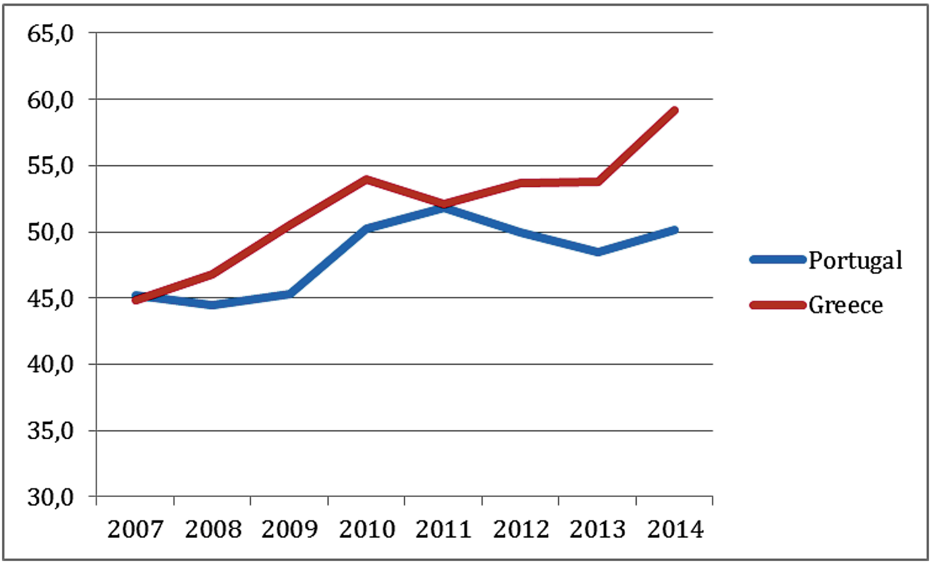
Lithuania would overtake Latvia as the fastest growing economy in the Eurozone.[24] On 1 January 2015, Lithuania adopted the euro as its currency.

Portugal vs Greece

I compared Greece, Spain and Portugal above to the three Baltic States covering mostly the immediate years following the crisis. However, since then there have been large differences among the southern countries, not least as regards reforms. Let me compare Greece to Portugal to further display the contrast between reforming countries and non-reforming ones.

In 2008, Portugal was significantly poorer than Greece, with a GDP per capita (ppp) of USD 22 900, compared to USD 27 195 in the Hellenic economy. Now, the average income in Portugal is slightly higher than in Greece. This is due to Portugal adjusting to the crisis. Even though Portugal has not yet reached the target of a maximum deficit to GDP ratio of three per cent, the government under Prime Minister Pedro Passos Coelho has pushed through impressive fiscal reforms, cutting public wages, raising taxes and making cuts in the health and education sectors.

Public expenditure, as share of GDP, %

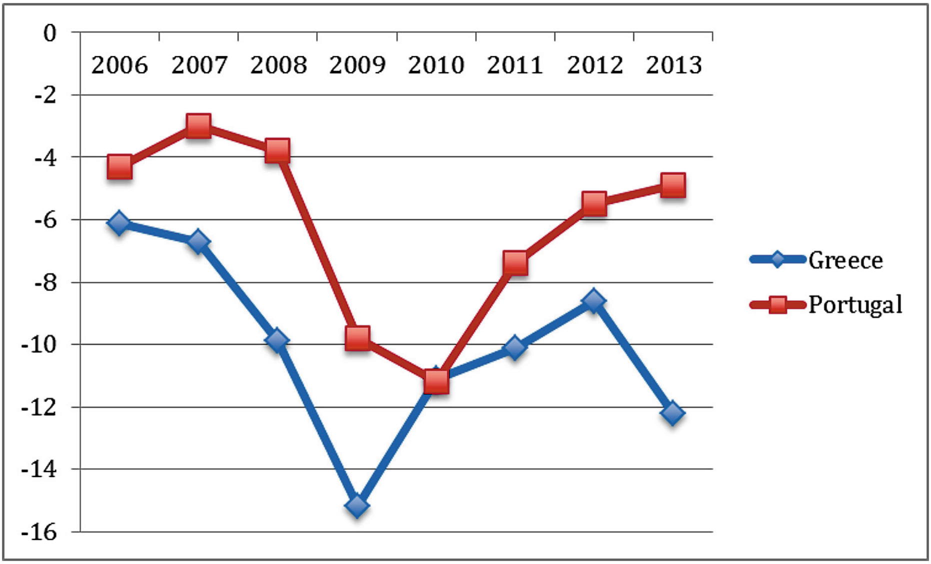


Source: Eurostat.

[24] <http://www.baltic-course.com/eng/analytics/?doc=100085>

This is also why Portugal, in contrast to Greece, is about to get its fiscal house in order.

Budget deficits, per cent of GDP



Source: Eurostat.

The most important difference between the two countries, however, is not fiscal reform. As stressed throughout this report, fiscal discipline is a necessary but not sufficient condition for success. The most important factor is reforms for increased competitiveness.

Since Greece's debt is primarily foreign debt, the service needs to be financed by exports. The best way to lower the debt burden, then, is to increase exports, which in turn requires reforms for enhanced competitiveness. Too bad, then, that Greece is the least competitive country in the European Union, even including the former communist countries in Eastern and Central Europe. In the World Economic Forum's Global Competitiveness Report, the country is ranked at number 81 out of 144 countries. Next to Greece in the ranking are Moldova and Uruguay, respectively.[25]

It is not surprising then, that Greece does not export much of value. The coun-

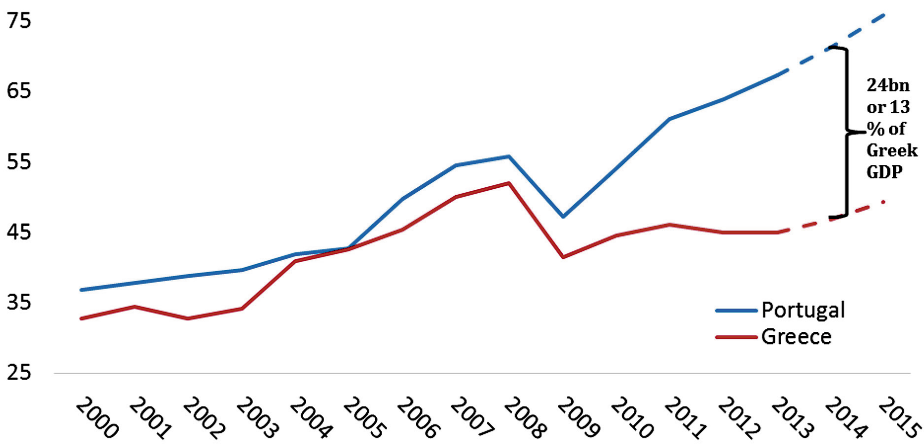
[25] *WEF 2015.*

try does not produce any machines, chemicals or electronics. Greece accounts for 0.1 per cent of world trade in information technology. Instead, the goods that dominate the country's exports are fruits, olive oil, cotton and tobacco. Instead of reforming the economy to build up a productive structure, Greece pretended to be rich by borrowing money from abroad for consumption.[26]

Portugal in contrast, took a number of measures to improve its economy and make it more competitive, to use economic growth instead of handouts from others to address its economic despair. In addition to trimming public expenditure, the country has cut red tape, made it easier and faster to set up a business, liberalised product and labour markets, made public procurement more transparent and competitive and lowered entry barriers in the telecoms market. The corporate tax rate is being gradually lowered. In 2014, Portugal gained 15 places in the WEF World Competitiveness ranking.[27]

The reforms have paid off. Since 2009, Portugal's export of goods has increased more than Greece's.

Exports of goods and services in Portugal and Greece, 2000-15 (EUR bn)



Source: Daniel Gros, CEPS, based on data from the European Commission (AMECO), 2013

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[26] *Hausmann 2015.*

[27] *European Commission 2014 and Ames 2014.*

Greece was on its way to growth before the Syriza government decided to solve the problems by using the choke, which has resulted in negative growth rates. In contrast, Portugal has enjoyed positive growth rates in every quarter since Q1 2013, with the exception of Q1 2014.[28] In June 2014, Portugal exited from the Economic and Financial Assistance Programme.

Some people have voiced concern, though, that the pace of Portugal's reform since its exit from the programme, and in view of the 2015 elections, has slowed and even reversed in certain areas.[29] But as an overall illustration of Europe's problems and the solutions at hand, the comparison between Greece and Portugal offers some serious food for thought.

In order for Greece to be able to get its house in any kind of order, it needs serious reforms to become a modern competitive economy, with skills, competition and entrepreneurship with a capacity to offer customers throughout the world goods and services that they are willing to pay for. Unless Greece manages to transform itself in that direction, there is no debt forgiveness or any stimulus package in the world that will solve the Greek problem. Only enhanced competitiveness will.

Today we can see that the Greek tragedy is the most obvious example that overspending rarely leads to growth, that a lack of reforms are the biggest threat to social welfare and stability, to employment and growth. Today, Greece is only avoiding austerity in its most extreme form because others are taking the responsibility that the Tsipras Government refused to take when it tried to avoid the necessary adjustments. Without money, without creditors willing to finance spending and investments and without responsible government, Greece would be very alone and on the way deeper into a crisis whose effects no one can foresee.

It remains to be seen if the agreements of reforms and financial support will be honoured by the socialist Government or not, but they have for sure deepened the crisis for their own citizens. In a period of six months Greece lost ten years.

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[28] *<http://www.tradingeconomics.com/portugal/gdp-growth>. Greece did in fact enjoy growth during the first three quarters of 2014, but returned to negative growth in Q4. <http://www.tradingeconomics.com/greece/gdp-growth>*

[29] *In November 2014, both the EU and the IMF warned that Portugal had turned away from its successful structural reform path, under pressure of the upcoming 2015 legislative elections. Kowsmann 2014.*

And they will face the bitter fact that it is only by taking responsibility for their problems and the reforms that are needed that they can bring the country out of a long period of crisis that is undermining the standards of living and social welfare, just because they avoided this responsibility.

The fact that the Syriza leader first called for a referendum, campaigning for a No to an agreement with the creditors, then won the referendum but later accepted an agreement with the same substance with the creditors, saying he doesn't believe in it and now has resigned calling for a new election clearly shows that there is a deficit of responsibility and credibility.

5. Lessons learned

There are not only lessons to be learned from how the crisis was handled. There are also older lessons to be learned. Why is it that certain European countries did not suffer as much from the economic downturn? Well, they had already reformed. Let us look at Sweden and Germany.

Sweden

In 1970, Sweden enjoyed the fourth highest standard of living in the world. Barely two decades later, we experienced the most severe economic crisis since the great depression. From a Swedish perspective, the downturn of the late 1980s – home grown and largely the consequence of decades of bad policies and mismanagement – was much worse than the current crisis.

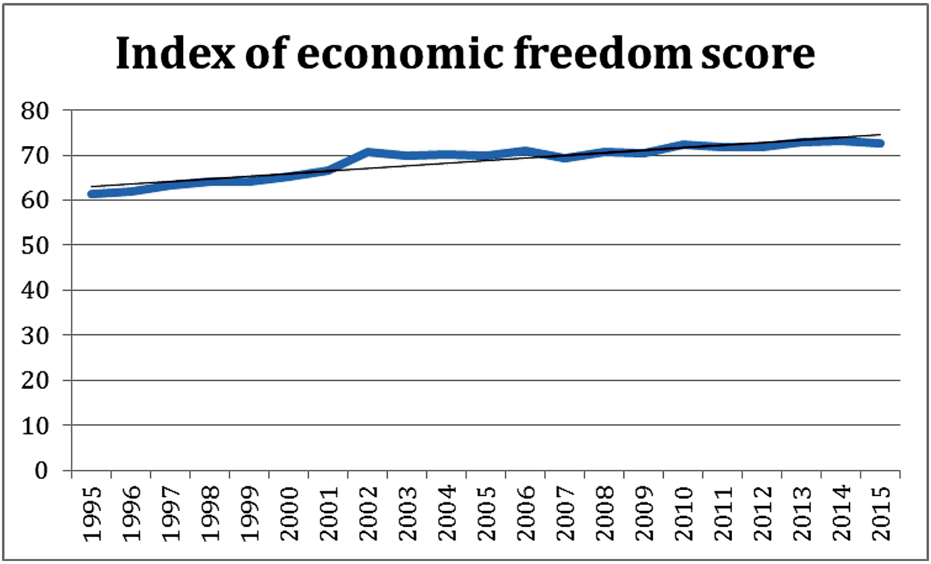
Overspending, unbalanced budgets, tax hikes, unsustainable nominal wage raises and inflation lead to real investment becoming less profitable in relation to increases in asset values, creating an overheated economy and a housing bubble that burst in 1990.

Three years later, in 1993, Sweden had lost a position equal to that of Switzerland's, and closer to that of Italy's. The country was placed at number thirteen in the OECD ranking of Member State GDP per capita adjusted for purchasing power. Overspending and current account deficits turned Sweden into an average western economy.

However, since the beginning of the crisis, Sweden has undertaken profound reforms. Product markets have been liberalised and welfare services opened up for competition. The independence of the central bank and new budgetary procedures laid the ground for sound monetary and fiscal policies.

Taxes have been cut. In 1990, fiscal revenues amounted to 49.9 per cent of GDP. In 2013, they were down to 42.9 per cent. The public pension system was transformed from an unsustainable pay-as-you-go system to a partially prefunded one. Benefits in sick leave and unemployment insurance schemes have been cut. A number of state-owned companies have been sold and labour immigration has been liberalised. In 1995, Sweden joined the European Union.

Even though most of the reforms had already taken place in the beginning of the 1990s, between 1995 and 2015 Sweden greatly improved its score in the Index of Economic Freedom from the Heritage Foundation.



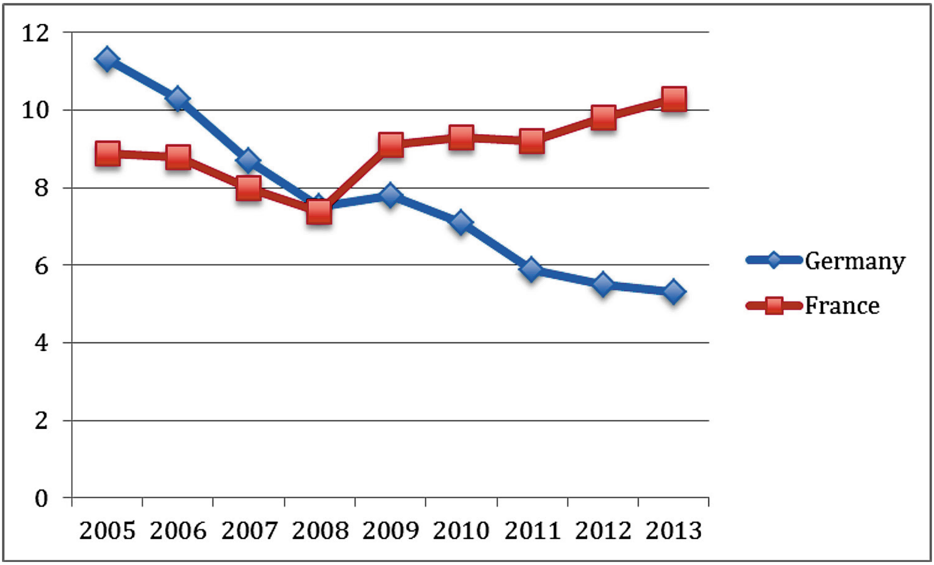
True, many other Western countries also liberalised their economies, but Sweden reformed more than most others. The result is a reversal of the previous decline, transforming Sweden into a country that climbed in the international prosperity league. From a low 13th in the OECD ranking of living standards, Sweden is now in eighth place.

Germany vs France

Germany is one of the EU countries that have managed the crisis the best. True, it is Europe's largest economy and the continent's industrial powerhouse. Many Europeans consider it a natural law that the Teutonic economic machinery is superior to the rest of the Union's. That is a misunderstanding, based on oblivion of the policy developments of the recent era.

Just little over a decade ago, Germany was considered the sick man of Europe, with slow growth and a bloated welfare state. In 2005, the unemployment rate was at 11.3 per cent, significantly higher than in France, where it stood at 8.9 per cent. Now, German unemployment is all but half of what it is on the other side of the Rhine.

Unemployment rate



Share of the population aged 15-74. Source: Eurostat.

This is not surprising, given what has happened in the two countries. In early to mid 2000s, a number of significant reforms were carried out in Germany. Income and corporate taxes were cut and unemployment benefits were lowered, made more restrictive and merged with the social welfare scheme. Also, labour laws were made more flexible. Germany did its homework and is now cashing in on the efforts.[30]

[30] *The Economist 2013 and Zhong 2012.*

France on the other hand, has failed to push through any fundamental reforms to increase its competitiveness, its business sector or the functioning of its labour market. Just like his predecessor of the 1980s, François Mitterand, French President François Hollande has had to turn away from the policies on which he ran to win his office. Reality is always a stumbling block for populists. But even though he has switched to a more realistic middle-of-the-road path, President Hollande is very unlikely to carry out measures like those of Germany in the 2000s, that would fundamentally change the way the French economy works. France is ranked number 73 in the Index of Economic Freedom, between South Africa and Kuwait.

6. A new agenda for Europe

Economic freedom

Some argue that Europe's crisis is a crisis also for capitalism. But the data suggest otherwise. If one looks at the EU Member State rankings in the Index of Economic Freedom, one sees that the countries with the greatest economic freedom are those that were not deeply affected by the crisis or managed to handle it swiftly and turn their economies around, whereas the countries with lower levels of economic freedom tend to be the ones that are still struggling.

Economic freedom in the EU

Member state	Rank out of 178 countries	Member state	Rank out of 178 countries
Estonia	8	Poland	42
Ireland	9	Cyprus	45
Denmark	11	Spain	49
UK	13	Slovakia	50
Lithuania	15	Hungary	54
Germany	16	Bulgaria	55
Netherlands	17	Romania	57
Finland	19	Malta	58
Luxemburg	21	Portugal	64
Sweden	23	France	73
Czech Rep.	24	Italy	80
Austria	30	Croatia	81
Latvia	37	Slovenia	88
Belgium	40	Greece	130

Source: Index of economic freedom

If any correlation can be drawn, it seems to be that the most economically free countries were spared from the crisis or weathered it well. We can conclude from this simple fact that Europe needs more capitalism, not less.

The socialist analysis of Europe's crisis is based on the simplistic assumption that the problem is a deficit in aggregate demand. But Europe's economic difficulties are based on the fact that our labour and product markers have stymied supply. Therefore, we need structural reforms rather than demand stimuli, for which there is no fiscal space anyway.

There are those who argue that the current EU policy is unpopular among the European citizenry. In fact, it is the other way around. Voters have punished governments that have pursued socialist policies and rewarded those who have done the opposite. Between October 2008 and September 2013, eight incumbent governments were re-elected – in Estonia, Finland, Latvia, Luxembourg, the Netherlands, Poland, Sweden and Germany. All are so-called austerity countries.

In 2012, the average budget deficit of these eight countries was 1.6 per cent, compared with 4.8 per cent in the countries whose governments had been rejected by the voters. The responsible countries grew by 1.4 per cent, whereas those who encouraged spending contracted by 0.8 per cent.

More recently we saw the same in UK, where reforms have led to an all-time high employment rate. The combined effect of consolidating public finances, reforming the economy and adjusting costs has led to growth and a shrinking deficit, although it is still too big.

Also, in order for fiscal stimulus to be possible, there has to be room to borrow money. But in 2013, EU countries on average had 72 per cent of GDP in national debt. This means that there simply is no fiscal space to take up more debt. 'Spenderity' is a dead end.

Balance in public spending is necessary, but we also need to strengthen the competitiveness of Europe's economies. In a piece in the *Financial Times*, the Nobel laureate, Edmund Phelps, writes that Europe is a continent that has run out of ideas, and that the roots of our economic problems are to be found in low productivity, which in turn is caused by a lack of innovation. Basically, Europe is freeriding on US innovations.[31]

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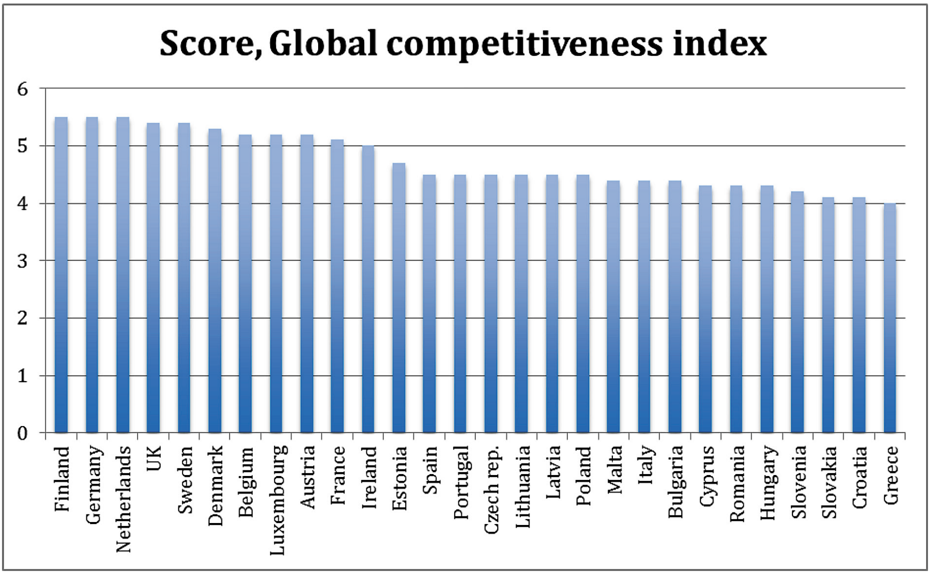
[31] *Phelps 2015.*

This is what calls for an agenda of reforms aiming to make the European Union one single internal market characterised by a high level of economic freedom, room for new ideas, deregulation paving the way for Europe to become the global leader for start-ups and for small companies, while also providing our big companies the best opportunities to operate globally with their centres in Europe.

Competitiveness

Let us look at the World Economic Forum's Global Competiveness Index. 144 countries are given grades for various measures that determine a country's economic success. WEF defines competitiveness as 'the set of institutions, policies, and factors that determine the level of productivity of a country' and divides it into twelve pillars: institutions, infrastructure, macro-economic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.[32]

Countries can theoretically receive scores from 1 (lowest) to 7 (highest), but the most competitive economy in the world (Switzerland) gets the grade 5.7 whereas the least competitive (Guinea) gets 2.8. Below are the scores of EU Member States.



Source: World Economic Forum

[32] *<http://reports.weforum.org/global-competitiveness-report-2014-2015/methodology/>*

A number of northern European countries are among the most competitive economies in the world. They have carried out reforms that make their firms and people more productive. Others have failed to do so. Europe's crisis is primarily one of low competitiveness, of an inability to transform our economies into dynamic and entrepreneurial ones based on creativity and innovation, being able to face the competitive pressures of a global economy that no longer is limited to a few Western countries along the coasts of the Atlantic Ocean, but rather encompasses the entire world.

Responsibility

Some argue that the economic problems Europe is facing today, and the crisis a number of its member states are deep into, is a crisis of the European Union. They claim that had it not been for the EU there would have been no crisis or at least not such a deep one, and without the EU, and the euro, it would have been easier to recover. That is, as I have demonstrated above, a wrong understanding of the crisis and of the opportunities for change and recovery we have. It is a way of hiding what problems we have and where the responsibility lies, not only for the problems but also for the solutions.

The problems of Greece lie in the hands of the Greek people. That could be said to be bad news for politicians that for decade have neglected the problems and the needs for reforms but good news for the Greek people. It means that they can do something about the future of their country.

The same applies for France and Italy. The fact that governments there don't take action is not because of the euro, the EU or the rules of the internal market. To be true, the problems are partially caused by governments not following the rules of the euro and the internal market. But overspending in drachma, francs or lira is really no different from overspending in euros.

You would have the same problem regarding competitiveness and structures in either case. Of course, lowering the value of your own currency could compensate inactivity and political incompetence, but that is only another way of hiding problems and getting poorer from year to year, with politicians avoiding responsibility. It is really the other way around; if you have the euro as the currency you need to act based upon that and not as if you still where having the drachma, lira or franc.

It is true that the common currency, the euro, makes your own economic problems more visible, but that is not a fault of the euro but rather a good thing, for prosperity as well as for democracy. And obviously there is a difference between the governments that have taken responsibility and action in order to deal with the crisis and those who have not. Germany has been stable throughout the crisis, as the Netherlands and Austria, not meaning they are without problems but that these countries are dealing with them.

The same can be said about the Baltic States that dealt with the crisis, being pegged to the euro and also entering the Eurozone, just like Ireland, Spain and Portugal handled the crisis and their problems, recovering because of the fact that they have taken responsibility. It is not the euro's fault that some countries overspend and that some of them tried to solve the problem of overspending by more overspending. To blame the euro or the rules of the stability pact is a cheap way of running away from the responsibility and from the fact that obviously some countries have managed well while others have managed badly.

Accusing the EU, Brussels, the euro, the competition of the internal market or free trade or whatever is also a way of letting the responsibility and accountability slip away from decision-makers into a web of structures and institutions that easily can be accused of anything because they are structures and not decision-makers of flesh and blood. They seem to be distant and complicated but are still not responsible for the unemployment or the lack of competitiveness and growth. It is not the EU that has delayed the implementation of the internal market in some countries, that has postponed structural reforms or that has let deficits grow.

It is dangerous to claim that we don't have the responsibility because that means that we don't have the destiny of our economies in our hands. That's dangerous for the economy as well as for democracy. We need responsibility and ownership of the problems as well as the necessary policy reforms.

European Union

It is not the EU that is the cause of the crisis. Instead, the EU gives us the means and tools to deal with the crisis as well as with other challenges we are facing.

Without the EU, protectionism would have emerged as a reaction to the crisis, creating making the problems even worse. In history we have seen how disastrous it is when decreased trade and increased walls follow an economic crisis.

Competing devaluations would have been another problem. Lack of stability in a number of the crisis economies would have caused them and the rest of us even bigger problems. A Greece on its own would have faced insurmountable problems. The EU has been able to stabilize, to help and to push policies in the right direction. With the help of EU there are the preconditions for recovery based upon open markets and free trade, common policies on energy, financial markets and making us all a part of the world's biggest economy with all the opportunities this implies.

The aggression and warfare of Russia is not the cause or failure of the EU but it calls upon common policies and reactions. We might consider EU policies as shortcomings, as too little and/or too late but that underlines the need for EU policies, and a strong European Union. Without the EU we wouldn't even be talking about shortcomings but about the absence of common policies and the vulnerability of countries like Estonia, Latvia and Lithuania, as well as the problems for Poland among others. Russia would be relatively stronger against every country it provoked.

Now the fact is that the Russian economy only counts for 1,5 trillion dollars, compared to the aggregated economy of the EU worth 17 trillion dollars, and together with the US almost 40 trillion dollars! This calls for a strong EU and a European Union being able to act with the US as a partner.

The EU does obviously not cause the migration issue but some countries wouldn't be able to cope with the problems alone. We can question whether the common policies on migration are the right ones and if they are firm and decisive enough, but without EU we would have had a real shortcoming. We would have lacked the opportunity to tackle a human catastrophe with the proper moral and political approach. The refugees would have been worse off with a number of the Mediterranean countries trying to deal with one of the biggest waves of refugees since WWII.

A lot of people say that the learning from the crisis is that we need to create new institutions and new unions in the union. That can only weaken us and move our focus and political energy from the policies that can make us strong and even more united to endless discussions and negotiations that can only create new divisions and disunity.

Now is the time to keep the union together and to use all the means and tools for action that we, during the last 20 years, have developed and acquired, EU being the world's biggest economy. The internal market and the free trade with others will define our economic strength.

It is by standing up for political strength and a strong economy that we can get out of the economic crisis and meet all the other challenges that are threatening our prosperity, growth and security. It is by utilizing all the opportunities already in place that we can enter into a new phase of the European Union, where our economic strength and leadership can be formative for others, that we can to support a peaceful development in the presently war-ridden Middle East, that we can meet and draw the lines versus a Russia that risks becoming even more aggressive against its neighbours, that we can deal with the migration issues that will define our own moral and security and that we can make sure that, together with the US, we can make democracy, market economy and open societies formative for the world's development the next coming decades.

We therefore need to make the European economy strong in order to utilize all the capabilities of Europe, political as well as economical, in order to take the lead dealing with challenges that are fundamental to our open society and to the freedom and prosperity of our countries. The European economy is nearly ten times bigger than the Russian one, twice the size of the Chinese and even bigger than the American. And all the challenges we today are facing require more than anything economic strength and leadership.

It may sound unreal or like science fiction, but this spring the New Horizons passed the mini-planet of Pluto. It was a journey of an unbelievable 50 billion kilometres and it took nine years from earth. It underlines to me that we can make the unreal real and science fiction into science. We can make EU the leading economy for small companies, for start-ups and for global champions. We can make it a leading knowledge economy. We can take the lead in digitalising the economy and our society instead or regulating or prohibiting new opportunities. We can enter an era of change for the European economy instead of changing the values of our currencies and our money. We can enter into a change where we utilize the most valuable assets we have and that is the knowledge, creativity and fantasy of our citizens in the whole of our societies.

We don't need new treaties or institutions in order to do that. We don't need to create new artificial and dividing unions in the union. We just need to do the reforms the European Union already is implying from us. The only thing we need is the political decisions needed to enter a new agenda.

A liberalising agenda in defence of European values

The policy proposals that are debated in Europe right know do not address our global challenges or our structural problems. They do not put the focus on the liberty and the opportunities of all the individuals that are to be the entrepreneurs, innovators and employees of today and tomorrow.
They do not deal with the problem. More debt and making money cheaper will not make our economies more competitive or innovative. Instead, it will increase the risk of yet another crisis, since the same policies brought us to this point in the first place.

The only way forward is reforms for better functioning markets. Europe needs a new agenda that actually deals with our problems in a serious way. We don't need to choke the engine; instead we need to kick-start it.

We need an era of liberalisation for our citizens, our economies and our societies so that the best of entrepreneurship, innovations, investment, work, employment, welfare and prosperity can flourish. This type of action is the most social policy we can perform because there is no other way to prosperity, social security and new jobs.

The most important resource we have is the individual citizens and their abilities as well as freedoms and opportunities to change and make a difference. We need to free men and women from the categories, structures and quotas of the past – an emancipated Europe means a society where every individual, irrespective of gender, can make his or her choices, define individual identity, capacity and visions in their own wishes and individual choices. Liberalising people means embracing individualism and the freedom of choice as well as an open society. The knowledge economy has no gender barriers and defies the categories of the past, respecting instead the individual.

We need to have the vision to make Europe the leading knowledge economy and the leader for start-ups as well as for global giants.

We can do it by prioritising research and science. We need to spend more and we need to spend better and to organise our research and science in a way that will create a critical mass, globally leading clusters at the European level, making the leading European universities knowledge centres for the whole world.

The very many leading universities of our member states can and must become European in the true meaning of the word, recruiting students, teachers and researchers from a Europe-wide research area. Universities should attract top scholars leading cutting-edge projects, and European science funding should follow the scholar, thereby contributing to the research that is to be done.

We can do it by deepening the internal market and including the whole of the service economy. European health care needs an internal market to become a world leader; our pharmaceutical industry must be given the opportunity to retake its lost position globally.

Patient mobility must be developed in order to provide our citizens with the healthcare they need and want, creating a plurality in services and care, that is open to patients, and that is also open for competition that will stimulate the development of the best medical care and hospital management.

Healthcare institutions – private structures providing health care and hospital services – should have the right of establishment under the same preconditions as domestic ones. Voucher systems would give Europeans access to the best healthcare possible all over Europe. The freedom of establishment means that the best actors can set up shop anywhere, challenge old incumbents and contribute to the improvement of the health of Europeans.

We can achieve new competitiveness and a true internal market by opening up for entrepreneurs and freedom of choice in all public interest services. If they are of public interest there should be a general interest in letting them develop, prosper and innovate by competition, innovation and by giving better value for money.

We can do this by establishing a European energy market, and by enlarging markets to allow for more investments in renewables and for an economic return, and also by connecting our grids in order to create a common market with the same net for all of us and for many independent resources. This can also be achieved by providing both solidarity and energy security, by phasing out fossil energy sources, preserving our base power production and by letting new production fit in based upon real prices that can achieve reductions of CO_2 emissions at the same time as securing competitive energy prices.

By developing the European energy markets into a single market we can combine European climate policy with energy security and at the same time as stimulating technologic change. If we invest in the grids and if we complete the internal market by allowing for all sorts of cross-border competition we will stimulate new breakthroughs in solar and wind energy, new generations of bioenergy as well as nuclear power, and maybe even carbon dioxide storage that works and not just postpone emissions.

By securing the supply of electrical power we can pave the way for better distribution, less dependence on certain countries, not just Russia, but also take the lead in modern transportation systems replacing fossil fuels with electricity, offering the European car industry a market for tomorrow.

We need open the European railway system for competition and bypass the prestige and politics surrounding old national railway systems.

We can do it by going digital instead of the on-going analogue discussions about a single telecoms market and an ambitious digital agenda, with more spectrum frequencies allocated in order to establish real net neutrality by capacity instead of by regulation – by stating that we shall have the best technological advantages by broadband capacity. We should be talking about GBs instead of MBs, so we can be the first to invest in 5G and all the new services and industrial development that will emerge from that, by competition among the network, operator and service providers, increasing the value of services that will pay for the investments, consumers and industry need to do. The services of today could never have developed with the speeds and capacities of yesterday. The services of tomorrow will not develop with the speeds and capacities of today. That's how simple it is. We should provide for the necessary preconditions for new generations of cars, vehicles, transports, trade, medical services, energy distribution and all those things that are on the borders of science fiction but will be real.

We can have a single telecoms market where there is no roaming but instead European networks, owned and shared by a competitive and competing industry of operators, in which our universities, big cities and rural areas have the best connections in the world.

We can regulate and deregulate in order to take away national regulations, European rules and bureaucracy that hinder making internal market real and relevant for all. Small and medium-sized companies must feel that the European market is theirs.

We need to stop those who want to stop competition, open borders and free movement of people, services, capital and products as well as free trade with the rest of the world.

We need to focus on fundamental legislation and leave the details to the care of our citizens and the wisdom of our societies.

We need to take the further steps towards a single simple market, being accessible to all, providing opportunities for consumers, producers, entrepreneurs, innovators, global champions and start-ups.

We can do it by deregulation, by phasing out national rules where we have common legislation, by a coordinated framework for copyright and intellectual property rights, by simplifying systems for patents, by an administration for VAT that is the same wherever you try to produce, market and deliver.

The service sector must be reformed into a single market, making the European knowledge industry operate in the world's biggest market, enabling the digital market to get into a leading position globally.

The four freedoms are already established in the Treaty of Rome, so it is not something that should be seen as controversial or new.

In each Member State the call for consolidated public finances needs to be combined with a fiscal policy giving priority to work, investments and entrepreneurship. Lowering taxes will increase the number of people who are working and will diminish the dependence on social welfare and public spending at the same time as increasing tax payments will decrease the need for social subsidies.

The best way to fight unemployment is with new jobs and more employers employing more employees. The best way to fight social unrest is to get as many as possible to work. There is no more important social policy and no better social security than a simple step into the labour market and a regular paycheck.

The first line in the defence of welfare and social security is reforms for jobs and competitiveness. If we give up this line we will be defeated, either in terms of social security for all or in terms of our ambitions for our welfare societies.

We can get more people into the labour market make them increase the potential of growth, by reducing the hindrances and decreasing the thresholds to enter. The first job is the first step to your next job. Low wages are better than no wages. The work that is done contributes more than the work that is never done. You learn more from a job that you have than from the job you hope for. You get the job you hope for by having the job you get.

We need to increase the mobility of labour markets. Knowledge is individual property that can be easily shared but it requires that people move around and acquire knowledge. Without knowledge and competence you will not teach other people and you will learn less from others.

In the old industrial economy doing the same job improved stability and bettered you. In the new knowledge economy it is the other way around, the longer time you stay in the same place the less you develop your skills. Moving is learning, mobility is school and the individual is the owner. When jobs are being phased out, mobility is the step to another job.

The free mobility of labour isn't a threat to national labour markets. It is rather the other way around. Where you have had the most openness, you have gotten the most new jobs. Germany, UK and Sweden are all in the lead when it comes to rapid growth of jobs and employment, and have had the most open labour markets. The new people, those coming from other countries, often with lower wages, have contributed not only to GDP but also to the growth of and the demand for new jobs.

In reality, those countries that have received more people from abroad, and in particular, from other EU countries or from outside the EU, have prospered more than the others. To some extent thanks to the work being done – the individual contributions – through the newcomers' creativity, hard work and entrepreneurship, but also because open societies tend to be more flexible, allowing for the new, more innovative and by definition more open as such.

We can make European industry at the centre of the global economy, if we make Europe the centre for global trade, logistics and research. As imports, exports, internal trade, companies' internal investments and the supply of parts, knowledge, assembling, and design constitute a global company we need to make them prosper here by free trade and efficient logistics.

A transatlantic trade and investment agreement would move the world to higher standards, higher growth and more trade, binding the world as well as its knowledge together. The level of competition, supply and competitors would end in more stable prices that central bankers have learned is good, but on the other hand, growth is about innovation, efficiency, productivity, information and knowledge. A transatlantic economy would include all this but would add a moment of dynamics defeating the enemies of change.

On the way to the digital economy we need to fight anti-überisation, meaning that the present structure of our economies is fighting the higher levels of productivity and the lower price levels that come from digitalising new services and old products and production. The sharing economy provides new opportunities combining traditional industries with the rapid development of services on the net.

We can establish a new IPR framework on a European level. We can decide upon a European sales legislation that will make it possible for European consumers to shop for prices on the Internet they cannot get at home. Small and new companies can develop, market and sell product all over Europe. New competition can stimulate the logic of change and overcome the obstacles of national cultures.

We must establish European financial and capital markets, with the first steps being taken by scrapping the FTT, supporting banks to work cross-border with their investment- market- and liquidity making that is needed for the financing of small and growing companies.

We shouldn't fear new competition or the global economy, but fear the lack of change in our own economies. We should not see low inflation as a threat to growth but as a ground for investments, innovations and new jobs, providing growth and a call for supply-side based economic policies. Growth is by its nature always providing us with better value for money, more efficiency and higher productivity. The big breakthroughs on the digital markets are economic breakthroughs that will enable new services and new markets but even more importantly affect our economies as a whole.

Überisation has become a metaphor for this change, meaning that old services and products can be shared and distributed with the efficiency of Internet services. It is challenging the old structures, paving the way for a more dynamic and supply-side oriented economy. In order to lead the digital economy we need to fight anti-überisation, be it of taxis, hotels or any other service, that is mobilised by all the old structures not adapting to change.

It's all very simple. We need to do what we know we need to do. Structural reforms in each Member State, characterised by freedom of establishment, freedom of contracts and agreements, competition and where we have public services, public financing for the individuals to use them, not subsidies to the companies.

In the Treaty of Rome we have all subscribed to an open economy, market reforms, competition over the borders, limits to state aid, competition laws allowing for not only competition as such but also for new competitors.

In the Stability Pact we have all subscribed to the need for and the importance of stable public finances, including discipline in this field, understanding that deficits are not a way to finance investments but to undermine them. We have all learned the lessons.

In the Treaty of Lisbon we all stressed that we needed closer integration and rights for all Europeans that come from their being Europeans, no matter from where in the Union they come.

We need an era of reforms and liberalisation in order to defend and develop the economic freedom that is the precondition for our prosperity and the basis of our freedom. We need to stand up for European freedom in a world of new challenges and threats by reforming for freedom.

We need to safeguard social welfare by supporting its most important pillars; that is entrepreneurship, open labour markets, new jobs and a competitive industry as well as public finances that can give priority to schools, education, research and social security for those who need it. It is only through growth we can take care of our elderly and secure the best healthcare for all. It is only by having strong economies that we can stand strong in the world in terms of defence and security based upon economic prosperity and political leadership in the free world.

It's about liberty and prosperity. The choice is simple. Not standing still. Not looking back. Not avoiding the difficult decisions. Not being complacent. Not accepting social stability is contrary to the reforms we need. We need a new agenda for Europe. In reality it is the old one which once shaped the Union when the Treaty of Rome laid the base for European integration and cooperation. So it is the European agenda.

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"Europe needs an agenda that does not only identify and discuss the real problems and the underlying causes of our dire straits, but also one that suggests credible solutions. It is actually quite simple: a lack of competitiveness that makes our countries, firms and people less well off than they would otherwise be requires reforms aimed at making the economies more competitive. Thats why we need to go back to the roots of the European Union. That is the European Agenda. It is not new but today it requires new perspectives."

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