Key-Note Speech by Eurogroup President Jeroen Dijsselbloem
at the OECD-Seminar: ”The Euro Area at a crossroads”
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Ladies and gentlemen,

First of all of course I would like to thank Ángel Gurría for his opening speech and especially the underlying report which the OECD prepared especially for this occasion. I think this idea was conceived when Ángel came to The Hague to see me. We discussed the kind of work the OECD does on analysing the state of the economies and structural imbalances and the idea rose that this kind of study could be done for the Euro Area.

Moving out of the crisis, the next theme is – inevitably – going to be picking up the rate of economic growth. The analysis in the report underlines the importance of strengthening competitiveness throughout the Eurozone. This can be achieved by means of structural reforms; the key issue as of now in my mind. So, thanks to the OECD for the excellent analysis. It is up to us policy makers to take this very seriously.

Ángel has already addressed the issue of structural reforms from an economic perspective. I will make some remarks from a political angle. Structural reforms are needed to increase our growth potential. This means looking at how to make labour markets, product markets and government systems more efficient. And, for example, lifting education to a higher and more sophisticated level.

Modernising our economies is still mainly part of the national domain in Europe and the Eurozone. But over the last years and in the course of the crisis, it has become clear that national policy decisions will have an impact on other countries as well: spill-over effects. And that is the reason why we have to address some of these issues, the common threats as Ángel described them, together.

But before I discuss today’s topic in more detail, let me first outline where we stand now. Europe’s response to the crisis has basically come in three phases.

Phase one was the immediate crisis response. Vital banks were saved in a number of Member States. Among which in my country. European leaders agreed a support package for Greece and formed the EFSF. Other programmes followed. All of these actions prevented the crisis from escalating out of control.

In the second phase, which more or less overlapped, we improved the institutions of the Economic and Monetary Union. We created a permanent safety net called the European Stability Mechanism (ESM). Budgetary and economic governance throughout the Eurozone was strengthened. We took steps to enhance the coordination of our draft budgets, as we did successfully in the last November Eurogroup meeting. Currently, EU countries are creating a banking union at unprecedented speed, designed to break the feedback loop between sovereigns and banks. But of course mainly to get credit out there again. This will not only restore confidence in our banking system, but will above all help to improve the flow of credit to enhance economic growth.

The effects of these measures taken can already be seen. The euro remains strong. Some say too strong. Spreads on sovereign bonds have come down sharply. Deficits are on average down to 3% of GDP throughout the euro area and national debt is – for the first time in many years – stabilising. By acting decisively, working together with the ECB, we have convinced financial markets that the euro is here to stay.

With that return of financial stability, we are now entering phase three of the Europe's policy response, which is about restoring economic growth. Yet growth levels are relatively low, much too low, while unemployment levels are unacceptably high. A prolonged period of growth is necessary to create jobs, first and foremost for the young people. In the longer term, growth is necessary for sustainable public finances and the preservation of the European social model, which is so characteristic of our part of the world.

Past experiences teaches that we need sustainable growth on a solid basis, rather than more cheap credit and high debt levels. So we'll have to pull out all the stops to foster growth in the euro area. And there's certainly more scope for action at the central level than we have done so far. Like further enhancing the internal market. Like negotiating more bilateral trade agreements, which would strengthen our economies and export.

But the greatest potential for creating economic growth once again - as this report shows – lies within the economies of the Member States. Reforms to product market regulations could yield a 6% gain in output for the euro area within a period of ten years. Particularly in the most vulnerable countries. In addition, labour market reforms, which increase flexibility, can be instrumental in bringing unemployment down to a structurally lower level. Such as measures to tackle the insider-outsider problem and certainly also lowering the tax wedge on labour income. According to the OECD, interestingly enough, phasing is very important. If not executed carefully, labour market reforms can damage aggregate demand, increase income inequality and erode public support. I would very much agree with this view.

Changing, modernising our economies, has been made an integral part of programmes for the countries receiving financial support. This has led to an impressive transformation. For instance, Ireland has implemented a comprehensive public sector reform, widening its tax base and improving labour market institutions. Portugal has improved conditions for starting businesses, opened up professional services to competition and taken key steps to curb tax evasion. Greece has significantly improved its business climate, increased competition in retail markets and has become more competitive, resulting for example in a strong revival of the tourism sector.

The push for reform, however, must not been confined to the programme countries. In France the minimum contribution period for full pension qualification has been increased. And France intends to cut the cost of labour for employers, thereby addressing an important factor in its competitiveness. Slovenia has undertaken a comprehensive restructuring and privatisation of its financial sector, as well as improved its labour market and pension system.

These are just some of the examples of the measures that are currently pushed forward in different countries. The sense of urgency is crucial for getting more results. The OECD is strongly pushing for that in their study. A wide range of areas should be talked about, for example the conditions for investments in R&D – still very low across Europe – enhancing workforce skills and reducing barriers to intra-EU trade.

Now two conclusions can be drawn from all this. First, we share a common goal to restore growth across the euro area. Second, structural reforms at the national level have the most potential to achieve this goal.

I would like to add a third factor - the Euro Area dimension. The creation of the single currency has enabled closer cooperation and has increased trade flows. It has also made our economies more interconnected, increasing spill-over effects from domestic policy decisions. Both good and bad spill-over effects. In addition, the joint monetary policy increases the need for solid solutions to issues of competitiveness and sustainable public finances. These three factors combined make a strong case for discussing the topic of structural reforms at the Eurozone level.

So far we have been working on macro-economic reforms from two principles. It is first and foremost a national responsibility. And secondly, the coordination of reforms by member states is based on spill-over effects which could threaten the European Monetary Union. It is basically a defensive approach.

In the next phase I think we should take a more offensive approach. First of all we can strengthen growth in the Eurozone if we jointly work on competitiveness. And secondly, parallel to specific national policy changes, coordinated joint reforms with single standards can push our agenda further.

We have decided to deal with our national banking sectors in joint cooperation, which we call the banking union. With the same standards, with a joint supervisor and a single set of rules for supervision and resolution. The question is: could we do similar joint reforms in other crucial sectors of our economy?

For example – open for debate – the first possibility could be the services markets, more specifically the protected professions. Protected professions are politically hard to deal with. In a joint effort, maybe on the basis of single standards, we could open up services and product markets in all of our countries for young professionals to participate and to start new businesses. Real opportunities for unemployed youth.

The same mechanism we now have developed for our budgets, which last November proved to be effective when tested for the first time, could be used to create political leverage to improve the Eurozone's competitiveness. We, as Finance ministers, have worked closely and successfully together in the Eurogroup to stabilise and strengthen the Economic and Monetary Union. We could work side by side with our colleagues responsible for employment and competitiveness policy. And here I repeat my earlier plea: leniency on budgetary targets could be granted in combination with countries pushing forward reforms.

Finally, Europe has been a convergence machine. The crisis has caused a setback in this process of convergence. But now we should try to start that engine again. It takes a joint effort, to do what our people expect us to do; to push for more growth and jobs.

It is a challenging discussion. It has economic aspects and strong political aspects. But it is a discussion that is crucial to the future of the Economic and Monetary Union. I hope that today's seminar will prove a good starting point.