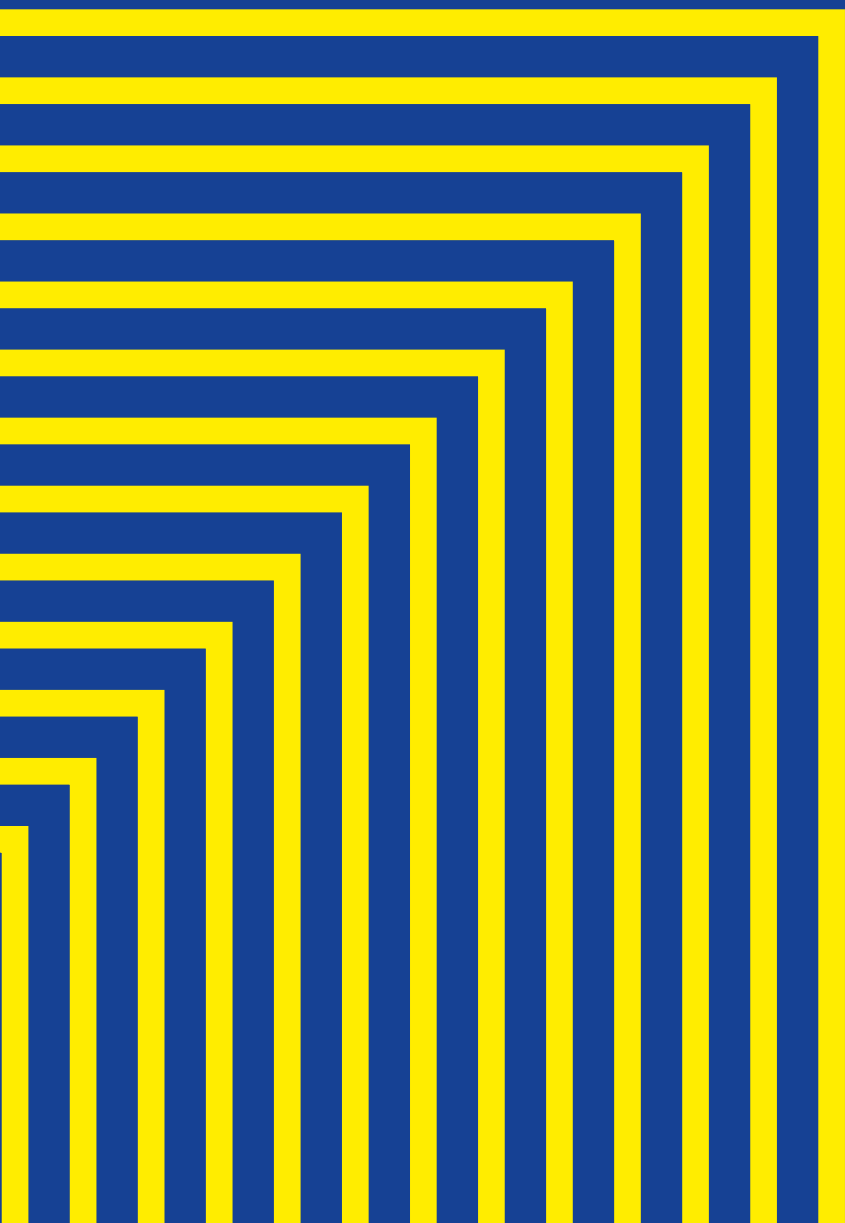


THE FUTURE OF

SEMINAR REPORT HELSINKI - APRIL 22 - 2014

THE EUROPEAN UNION



THE FUTURE OF THE EUROPEAN UNION SEMINAR REPORT HELSINKI ▪ APRIL 22 ▪ 2014

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Foreword

Our seminar *The Future of the European Union* was organized in Helsinki in April 2014. The seminar focused on issues regarding economy and welfare. We tried to open several perspectives: we looked at the general political situation, at expectations of European citizens, at changes in the labour market and at environmental factors affecting the European Union and the future of the member countries.

The first part of the publication handles the future of Europe and EMU, while the second part concentrates on welfare issues.

We want to thank the European Liberal Forum, our co-operating partners Fores and Forum for Greece as well as moderators, speakers and the audience for their contribution to the seminar and this publication.

Karina Jutila
director
Think Tank e2

Nils Erik Forsgård
director
Magma

Olli Rehn

The Future of Europe: Reform or Decline?

- This seminar is held in a historically significant place. It was here, in Ostrobotnia House in Helsinki that
- the Finnish independence movement started a hundred years ago;
 - President Urho Kekkonen held his seminal speech in the 1960s that changed Finnish society and economic development. The speech helped to integrate Finnish communists into Finnish society. The Communist Party was an amalgam of doctrinal communism and social populism at the time, but they were successfully integrated in the end;
 - here also the True Finns Party celebrated their victory in the Finnish parliamentary elections in March 2011.

What we are doing today is reclaiming this place from populism to focus on the substantive issue of the future of Europe.

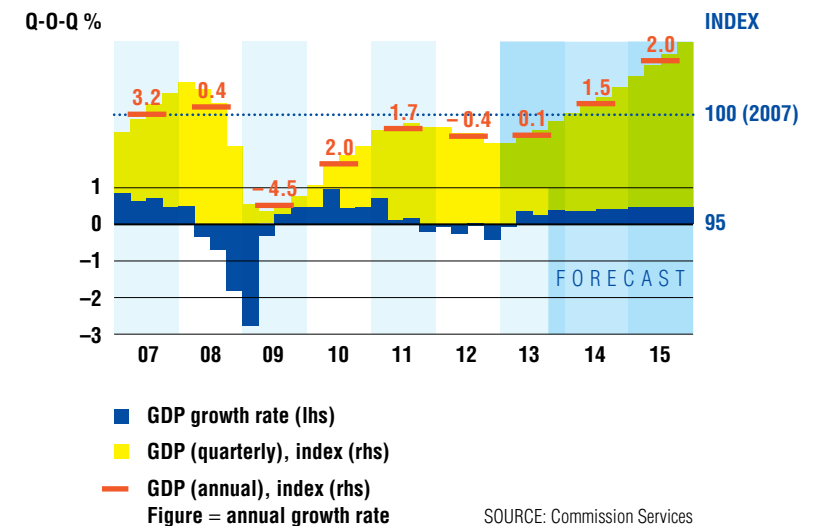
The subject of the day should be narrowed down to discussing the future of the European economic and social model: To me, the right question is not whether Europe will become a federation or not. Instead, Europe could be developed as a community of member states, with relatively deep integration in some areas, while other areas may thrive with less regulation.

I believe that the EU should be developed in such a way that it is big in big things and small in small things: big on peace and security, economic stability and sustainable growth, while refraining from nitty gritty regulation that produces unnecessary bureaucracy. The right question is: Are we constructing a Europe that is stagnating and in decline or are we building a reformed, modern and self-confident Europe?

Three challenges for Europe are economic revival, an ecologically sustainable energy union and unity in external action.

These are very much interrelated, and we need to work on all fronts. The current situation is one of economic recovery.

Economic Activity And GDP Growth in the EU 2007–2015



The first financial tsunami came from across the Atlantic in 2008. The rock bottom of the crisis was in the spring and summer of 2012.

I recall a discussion with a US policy maker advising the Europeans during the crisis. In the early days of June 2012 he was ready to concede: *I don't think we have any solutions left, do we?* That moment scared the European decision makers both in the European Council and in the Central Bank.

Since then, the summer of 2012, we have made significant progress, first stabilising and then starting an economic recovery since the summer of 2013.



European growth map 2014.

Core Europe is recovering at a rate of around 2%:

- employment is improving in core Europe
- Britain and Sweden are recovering
- Latvia and Lithuania, with about 3% of economic growth, are currently growing the fastest
- Portugal, Ireland and Spain are now recovering better than we expected at the end of 2013
- Ireland and Spain: both economies are improving.

The biggest challenges in Europe, at the moment, are Italy and France. Both countries need economic reforms to revive competitiveness, employment and growth as well as in maintaining a consistent line of fiscal consolidation. Unfortunately, Finland now belongs in this reference group. Finland, Italy and France face major challenges of economic reform in the coming years.

Four years ago, when I took on my current portfolio as Economic Affairs Commissioner, European economy was in free fall, facing the crisis in Greece. Our first aim was stability and we achieved it. Our second goal was economic recovery, and we're getting there. Contrary to the predictions of many, the euro did not break up.

Today, Europe's still nascent economic recovery is in danger. The most pressing concern is the way Europe's fragile economy is now haunted by the reborn ghost of old-school geopolitics, and by the scary spectre of deflation.

The conflicts in the Middle East and the fallout from the war in Ukraine – and from Russia's economic stagnation – are weakening investor confidence and so dampening economic activity, thus exacerbating deflationary pressures. These deflationary pressures are in turn further depressing economic activity in Europe and aggravating unemployment.

To bring about recovery in the European economy it will be essential to step up economic reform and forcefully increase the flow of credit to boost productive private and public investment. If

not, eurozone policymakers will take a big risk of seeing recovery permanently derailed.

The European centrist and liberal parties now need to stay the course until we make it to economic reform. The last thing we can afford is complacency. We must pursue economic reform, and we must continue to stabilise our public finances.

What is the bottleneck of European reform?

The logjam is very much in the credit conditions of small and medium-sized enterprises (SMEs), especially in Southern Europe.

But while touring Finland, I find that we too have become Southern European: here, too, credit conditions for growth companies seem to be much too tight, and many other parts in Europe are having to tackle similar challenges. The reasons are manifold: New, internationally agreed capital requirements; balance sheet assessment handled by the European banking sector; and fragility of confidence in many issues of the European economy.

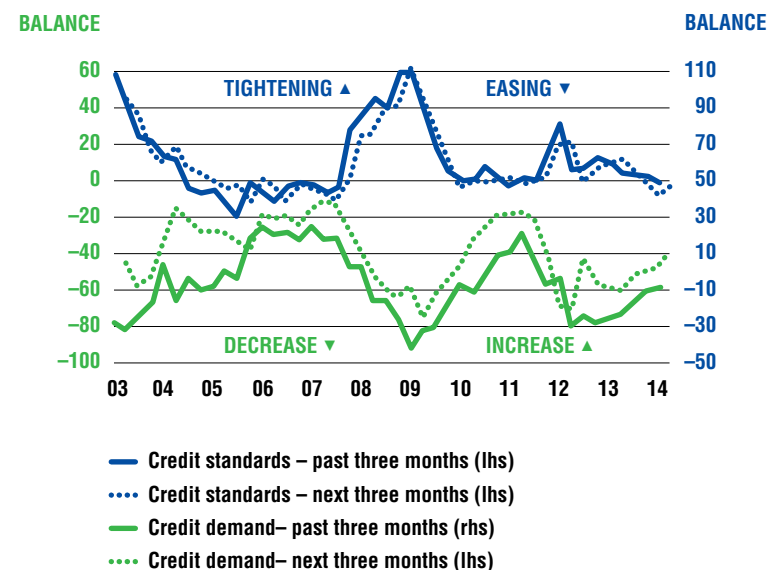
It is crucially important that the European Central Bank, other European institutions and the national authorities strive to remove this bottleneck together.

We need to shift the focus from macroeconomic stabilisation towards microeconomic dynamism and reforms. We should support access to finance for enterprises, especially SMEs, to provide them with better credit conditions and help them to invest and create jobs.

This calls for us to combine European and national forces. The European Investment Bank can do more. I also believe that the European Central Bank is likely to be planning something to this effect, as they are well aware of the tight credit conditions for the European SMEs.

At the same time we have to ensure that the national investment banks and national economic reconstruction/investment funds of the member states can better support the SME sector. This will

Credit Standards And Credit Demand For Loans To Non-Financial Corporations In The Euro Area



SOURCE: ECB Bank Lending Survey

give rise to more growth companies and will genuinely create more sustainable jobs in Europe.

Towards greener energy production

The second of the major challenges is linked to European economic revival. This is the movement from fossil-based energy production to renewables and bioenergy-based greener energy production. The Commission made a first proposal – not the final word – on reforming the climate and energy policy framework by 2030.

Instead of having three specific targets, which is not always the most cost-efficient way, the proposal relies on one major tar-

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Jörn Donner

MP, writer, film director, actor, producer, politician, founder of Finnish Film Archive. Member of Swedish Parliamentary Group.

"The Nordic model may have been a success, and it may have been the best for us, but I am not sure whether it would be the best model elsewhere, too. It's impossible to copy and every model has its own history, having gradually developed over time."

"The Nordic countries have done very well in terms of their economic performance, employment and social protection systems. It's easy to forget this, as we have recently been through very bad economic times, bringing to mind the 1990s."

"We should define the main principles of the Nordic model. I would argue that one of the main principles is high employment."

"The free movement of people leads to a better allocation of resources. It is the only liberal way of treating matters. In the EU, we have free movement of services, goods and capital – and of people."

"It is perfectly fine that the member states decide what kind of systems they have, because we come from different histories and traditions; why should we have the same systems?"

"Why should we restrict the movement of people? It's the free markets that are behind this, and we have to accept that. It doesn't cause any structural problems for the national systems."

"We should bear in mind that all the decisions taken on the EU level have some social consequences in member states. You should take into account at the European level that they are not just economic decisions, they are also social decisions."

"In the long run, if we have to harmonise something in the European Union, it is this dimension of the welfare state. The welfare state is an investment device."

"After spending some time in a Nordic country one realises that the welfare state has a very strong investment dimension in the Nordic countries. In the Nordic countries, they are tied to very high levels of social capital."

With the support of Think Tanks e2 and Magma, ELF organised the seminar *The Future of the European Union* in Helsinki on 22 April 2014. The seminar focused on issues of economy and welfare in future Europe. We looked into how the general political situation, expectations of European citizens, changes in the labour market and environmental factors affect the European Union and the future of its member countries.

In the first part of the publication the future of Europe and EMU is discussed, while the second part concentrates on welfare issues. The report ends with a reflection on Europe and liberalism.

