

**Address by Finance Minister Nikos Christodoulakis to the congress on  
"Economic Policy and the New Sources of Growth in Europe"**

Athens, February 7 - 8, 2003

"Ladies and gentlemen

It is my great pleasure to welcome you to the two-day congress on Economic Policy and the New Sources of Growth in Europe, organised by the Greek Presidency and the Ministry of Economy and Finance. Firstly, allow me to welcome the distinguished guest speakers and express the hope that we have a fruitful dialogue which will contribute to the preparation of the Spring European Council.

Already this evening we have had a particularly fruitful discussion about the role and possibilities of macroeconomic policy in the Europe of the single currency for promoting both stability and growth in a period of great speculation about prospects for the recovery of the European economy.

Tomorrow, we will be discussing the role of innovation and investments in the context of increasing production capacity in Europe. Of creating European competitive advantages in a global market by speeding up the necessary reforms in the product, labour and capital markets. In the context of combating unemployment and strengthening social cohesion. Of sustainable development and safeguarding future prosperity in Europe.

**The conjuncture**

This congress is being held at a particularly critical conjuncture. 2002 was a very difficult year. The anticipated acceleration of economic recovery was not achieved. While prospects for 2003 are less bleak, the average EU growth rate is not expected to improve greatly. Tension in the Middle East, uncertainty about domestic demand and the deceleration of the rate of structural change implementation prolong the lack of confidence on the part of investors and consumers and leave no room for greater optimism.

It is in this unfavourable environment that calls are increasing for a more expansionary macroeconomic policy in order to boost economic activity. Doubts again were recently raised about the Stability and Growth Pact, resulting in the wrong signal being sent to international markets but also to European citizens concerning the framework for the exercise of fiscal practice.

Fiscal developments in certain Member States in 2001 and 2002 resulted in ECOFIN cautioning those countries with an excessive deficit. The question was thus raised in a forceful way about whether the Stability and Growth Pact constitutes the appropriate framework.

It is quite clear that the European economy cannot have one common monetary policy and 15 — soon 25 — distinct fiscal policies. Consequently, we need greater coordination of our policies. In the next few months we shall be discussing the best way to achieve this, as we shall also be discussing the quality and better control of public spending.

The Stability and Growth Pact is a simple, comprehensible framework which is not as inflexible as many assert. Through the experience gained, we are able to see its

shortcomings and efforts are already being made — based also on the relevant proposals of the European Commission — in order to make it more flexible and realistic. Personally however, I do not believe that the present low performance of the European economy is due to the restrictive nature of the Pact.

Naturally, the framework must be flexible in order to respond to cyclical fluctuations and imbalances in the markets in the short term. However, it must not be vague. It must set clear fiscal rules, which above all ensure stability, safeguard the EU against conjunctural economic maladies and strengthen the reliability of economic policy. Countries such as Greece which experienced the vicious cycle of high deficits and low growth are well aware of this.

Excessive adherence to the role, limits and interpretation of the Stability and Growth Pact renders the sense of challenge that the European Union is facing somewhat short-sighted.

Beyond the exercise of economic policy in the short term, we must also make efforts to find new sources of growth, we must endeavour to feed the growth of European economies in the short and long term.

## **Reforms**

Three years ago in Lisbon, the leaders of the European Union set a highly ambitious agenda aimed at making the European Union a dynamic, competitive, knowledge-based economy, capable of creating 10 million jobs by 2010, with greater social cohesion and able to respond in a convincing manner to the expectations of European citizens.

This simple idea found expression in a number of different strategies, action plans and monitoring indices. It proved to be an exceptionally useful tool for mobilising or supporting European efforts towards economic and social reform.

Three years after its adoption and one third along the way to the target of 2010, the EU has achieved success in many areas.

For example, despite the slowdown of the European economy, 500,000 jobs were created in 2002 alone, while important steps were taken in respect of economic reforms, with decisions on the liberalisation of sectors such as electrical energy.

At the same time, it is clear to all of us and to public opinion in Europe that there have been significant implementation shortfalls. Shortfalls which appear to be even greater and more urgent in view of the ongoing economic slowdown.

Thus today, efforts are being stepped up to find a perspective which ensures the greatest possible political, economic and social consensus on the targets to be set and the reforms which must be introduced in a particularly weak economic environment.

We must convincingly show that one year after the introduction of the euro, Europe has the capability and the will to proceed with the necessary structural changes, so as to gradually become one of the most powerful economic forces in the world.

It's time the European Union began to regain its self-confidence as a leading and pioneering economic power at an international level. Otherwise, although we could put forward excuses based on economic developments in other economies, we shall be unable to consolidate a European growth dynamic. Where will this growth dynamic come from in Europe in the following years? Which new sources of growth will provide the necessary impetus?

## **Integration and interconnection of the single market**

An initial and obvious reply to these questions is “strength in unity”. The process of economic integration is itself a source of growth. The European Union cannot remain merely the aggregate of 12, 15, or tomorrow 25 different economic systems.

It must make decisive steps in order to shape common economic activities, in areas such as financial services and the services market in general, the product market, but also to bring about their interconnection and shape common supervisory rules.

The integration of the European market will also spur the creation of large trans-European companies in sectors where size and critical mass are major factors for competitiveness in the global markets. An important element for the interconnection of markets is also the physical integration of infrastructures — energy, transport, telecommunications — in the new enlarged Europe. The fact that 10 more economies will very soon be part of the European Union makes this objective even more imperative.

Trans-European networks must not be a forgotten legacy in the European Union. Many years after the Delors proposals, the issue of extending and integrating European network infrastructures has once again come to the forefront in a pressing way, particularly in the context of today’s geopolitical uncertainties. To achieve all this, more investments are needed. And for this we must find the necessary resources — not only public but with particular emphasis on innovative methods of private funding — while also securing the necessary cooperation at an international level by making optimum use of all financial institutions.

## **Knowledge-based economy**

The second source of growth lies at the heart of the “Lisbon process” and the effort to make the EU a dynamic knowledge-based economy. Some time ago, Bob Solow asked how it was possible to see computers everywhere yet not acknowledge them in productivity statistics. In other words, he raised the issue of the economic utilisation of the new technologies. Today we are very close to explaining “Solow’s paradox”.

Economic theory and market reality have demonstrated that research, innovation and investments in new technologies are prerequisites for growth and determine not only the direction but also the pace of evolution of modern societies. They constitute the key factor for increasing the potential output of an economy, as they are at the centre of issues relating to employment, competitiveness and sustainability. However, we see that the picture is not very encouraging with regard to the overall productivity of European economies. The gap between the USA and the EU is growing instead of narrowing.

Undoubtedly, spending on research and technology to a large extent determines the ability of an economy to direct its funds towards that knowledge which will make it more competitive and efficient. In other words, investment should aim not only at expanding capital potential but also upgrading it. In the EU, with only very few exceptions, these expenditures fall behind the equivalent outlay in the US.

Europe also lags in many cutting-edge technologies. In areas such as biotechnology, for example, we are witnessing a significant “brain drain” from the European Union to the United States, where significant investments are made by pharmaceutical and biotechnological companies, in order to utilise the knowledge gained in one key sector,

which will later produce advantages in broader sectors.

In addition to research spending, other steps will have to be taken in order to speed up convergence with the US: mechanisms for the utilisation of knowledge, especially by companies, and acceptance of the new technologies by European public opinion.

At an institutional level, bold steps and innovations are needed, such as the modernisation of the system of education and research, the strengthening of ties between production on the one hand and universities and research centres on the other, as well as the promotion of cooperation between enterprises and research units.

However, the main impacts on productivity and the rate of growth of economies come from the diffusion and use of these new technologies throughout the entire web of production – from the agricultural economy to light and heavy manufacturing, to environmental industries, and particularly to services, from tourism to money markets and social services.

Naturally, positive results can chiefly be seen when investments in machinery are backed and accompanied by immaterial investments in knowledge, new processes, new methods of organisation, effective management and work.

### **Entrepreneurship**

Entrepreneurship is of course the key to mobilising this dynamic of the new technologies and converting it into products and jobs. So, a third source of growth is the process of reinforcing entrepreneurial action. Europe has a shortage of entrepreneurship, especially in knowledge-intensive branches. Young entrepreneurs and small enterprises do not contribute as much as they could to employment, growth and regional cohesion.

To tackle this problem, the obstacles which enterprises face when entering the market must be reduced, procedures must be simplified, exit barriers — such as bankruptcy law — will have to be re-examined, access to business capital and know-how improved, entrepreneurship should be encouraged by the education system.

For an inordinately long time, this concept of entrepreneurship was to say the least a controversial issue in many European countries. It is now time to encourage new entrepreneurs, the men and women who take on risks, tie up capital and generate growth, jobs and prosperity.

And this is the logic behind a new industrial policy in Europe. A policy that helps promote new business initiatives and new knowledge-based branches. A policy that relies heavily on the dynamism of small innovative enterprises, that assists them by facilitating access to know-how and capital, especially venture capital.

It is a policy that is far removed from the policy of subsidies but which nevertheless acknowledges that Europe's new competitive advantages will not be created automatically. Globalisation

The fourth source of growth is the process of integration of the global economy. Globalisation, which is often demonised but can indeed create opportunities when accompanied by the appropriate mechanisms of control and supervision.

Europe was for a long time closed in on itself and shut off from the rest of the world. It allowed the United States and Japan to dominate in global markets and international investment flows. It was suspicious towards the new conditions being shaped, towards the

role international commerce can play.

This wariness of Europe has to a great extent subsided in the movement of goods and capital but persists — to a considerable degree — in the movement of persons. We must overcome this obstacle in order to place Europe once again at the centre of the global economy.

Today, new enterprises and in particular young entrepreneurs, brought up in an open environment beyond the borders of their respective countries, aspire to globalisation by trying to be open to the international product markets and hiring labour from abroad. The EU has the obligation to reinforce such efforts, especially between the Member States and the acceding countries, since they constitute the spirit and essence of European integration.

In this direction of enhancing the role of a united Europe in global markets, it is particularly positive that the European Union will be attending the World Trade Organization ministerial meeting in Cancun, Mexico with a single voice and a common proposal on agricultural issues, so that we can give fresh impetus to international trade and formulate a framework for the economic development and participation also of poor countries in international prosperity.

### **Employment and cohesion**

Making optimum use of these sources of growth can give the European economy the boost it will need over the next few years. It is also the only way for the European economy to continue creating an adequate number of new jobs.

In the labour market, the challenge consists in preserving the social character that characterises Europe in relation to the US, with parallel efforts towards greater flexibility and adaptability to changes. We must proceed simultaneously in both these directions, namely to spread a more effective safety net, while at the same time providing markets with the right incentives.

Trust, solidarity, social cohesion and the smooth functioning of institutions constitute an integral part of the European social contract and of what has been called social capital. It plays a very important role not only as a factor for growth and increased productivity, but also for a more equitable distribution of income.

The preservation of the European model of social cohesion and solidarity is a key characteristic of the policies we are promoting, because the European Union will have no value for its citizens if it does not maintain and further enrich the basic principles of social cohesion on which its very establishment is based.

However, social policy will have to also prove its effectiveness. In order for the European social model to survive, it will have to transform, become more efficient and ultimately more socially just.

### **Regional convergence and European enlargement**

We say yes to growth —but for how many and for whom? Regional inequalities are still very significant and social cohesion develops very slowly in a climate of economic recession. The Union has the required depth only when viewed as a whole rather than as separate economies. And this must be the message: a common course.

The enlargement of the EU creates another parameter but also sets another challenge,

since it is expected to lead to a widening of economic inequalities, their geographical shift to the east and a deterioration in the level of employment. The new Member States are looking to benefit from their accession — just as Greece and other countries of the European south did — and they expect the Union itself to help realise the vision of convergence.

The process of convergence of the acceding countries has two adversaries. The first is indifference about introducing the proper structural policies, in the mistaken belief that the mere fact of accession will magically accelerate the process of economic growth. The second is hastiness, which is already manifest in some political choices, such as immediate integration into the Euro currency system.

Enlargement should involve a very specific transition plan which is realistic, credible and with clear targets. And it is precisely this which makes it even more imperative for the present members of the European Union to promote the Lisbon strategy of structural changes, and also to follow a clearer policy concerning the coordination and reliability of economic policies.

### **Real convergence in Greece**

Before concluding this presentation, allow me to say a few words about the Greek economy: In this constantly changing European environment which is becoming increasingly demanding, Greece also has to meet its own challenges, as it endeavours to occupy a stronger position in the new European architecture.

In the current year, the Greek economy has the highest growth rate among the EU Member States. The Greek economy is expected to continue recording high rates of growth in the coming years. The aim is to no longer be a small- or medium-size forgotten economy on the fringes of Europe, but to become a strong force not only with respect to growth and prosperity, but also the promotion of specific policies in a 25-member European Union.

In the new environment, the enlarged Union, the Greek economy is no longer the “sick man of Europe”. It is a dynamically growing economy, with new opportunities and prospects, which can serve as a model for the effective adjustment of the acceding countries.

A series of indicators demonstrate that the Greek economy is on a course of real convergence. However, the question today is how can we accelerate this course of real convergence. What are the policies which will allow the new sources of growth to be tapped in the coming years? Our country has competitive advantages which, if properly exploited, will allow us to accelerate growth and achieve greater convergence with the other EU economies: - an investment programme in full swing, with resources that have – to a large extent — already been secured, - structural reforms, the positive impacts of which on productivity and competitiveness have not yet been fully seen, - competitive production and land costs, good labour relations, quality of human resources, considerable natural resources, - and a strategic geographical position in the new enlarged Europe

Given these advantages, given the Greek economy's successes to date, we can now raise our standards and set higher goals for the coming years. In the last decade, we managed to reduce the gap separating Greece from EU average per capita income by about 10

percentage points. The change in goals and philosophy in economic policy during the 1990s created the necessary conditions for the process of real convergence, but the need to stabilise the Greek economy did not allow significant benefits to be reaped in this area.

Our goal now is to double this rate of convergence. In order for Greece to reach 90% of average EU per capita output by 2010, a difference of 2-3 percentage points in the rates of growth compared to those of the EU will be necessary. If this difference is maintained up to 2015, Greece's per capita income will reach the EU average income level. This means that with an average rate of 2% for the EU, Greece needs growth rates of 4-5%. How can we achieve this? By activating the country's unexploited growth potential.

The achievement of such levels of performance depends to a great extent on the acceleration and deepening of the structural changes which we are already promoting and which have a positive impact on investments and employment: the opening up and liberalisation of markets, increasing competition, encouraging entrepreneurship, supporting small- and medium-size enterprises, completing improvements to the taxation system, lifting barriers to business start-up and operation.

Another way in which growth potential can be created is by making the Greek economy more outward-looking. According to the OECD, the rapid opening-up of the Greek economy to the international economy has substantially helped the growth process.

Increasing the contribution of technology to growth is connected with building a society of knowledge: by further improving access to business capital, actively protecting intellectual property rights, encouraging cooperation between businesses and research foundations, the opening up of businesses (particularly the mass media) to e-commerce and the combating of digital illiteracy.

We aim to set out this programme in a charter on the real convergence for the Greek economy. This charter will clearly define our goals in each sector and the tools for attaining them, and it will incorporate the dimension of regional convergence in the Greek economy.

A few days ago, the ECOFIN Council unanimously approved the Stability and Growth Programme for Greece, which describes as positive the progress made to date but also underlines a series of other steps we must take and which specific policies we should further strengthen. While acknowledging the progress made with respect to structural changes, ECOFIN emphasises the need to continue them. While acknowledging fiscal stabilisation, the Council also stresses that we are far from achieving the goal of broader stabilisation. While recognising that the debt is being contained, it points out that this is not enough. These views are adopted also by the Greek government, which expresses this view and is promoting its policy not only in the area of structural changes but also in the area of fiscal stabilisation.

All these years, the past years of confusion, we have learned — and I believe this knowledge has become deeply embedded in Greek public opinion — that however much of a threat is posed by apathy, inaction or ignorance of sound economic policies, hastiness and experimentation with extreme political choices can be equally dangerous.

This is why fiscal policy will continue to be balanced and gradually achieve the reduction of public debt, the curbing of deficits, but without sacrificing the broader goal of growth and increased employment. We shall never renege on our commitments to growth, especially

in a period in which Europe is making every effort to ensure further growth and create more jobs. In concert with the European Union, we shall step up these efforts for growth, while maintaining a balanced and well-targeted fiscal and reform policy.

Thank you very much