Lunch Session I: Yves Leterme

Monday, November 4, 2013

Sponsored by:	**EU Center of Excellence and the Center for European Studies**
Welcome:	**Robert Hutchings**, Dean, Lyndon B. Johnson School of Public Affairs, The University of Texas at Austin
Introduction:	**Yanis Varoufakis**, Professor of Economics, University of Athens, and Visiting Professor, LBJ of Public Affairs, The University of Texas at Austin
Keynote Address:	**Yves Leterme**, Deputy Secretary General, OECD
Rapporteur:	**Christine Foster**, Masters Candidate in Public Affairs, LBJ School of Public Affairs, The University of Texas at Austin

The session began with opening remarks by LBJ School Dean Robert Hutchings. Hutchings reflected upon the effect of NATO's enduring role in Europe upon the development of the European Community following the Cold War. In particular, Hutchings expressed that NATO's existence prevented a crucial reform of transatlantic relations that might have strengthened the European Union and the Eurozone through the 1990s.

Moving toward contemporary issues, Hutchings outlined several possible scenarios regarding the future of the Eurozone, including accelerated economic and financial integration; "muddling through" or crisis-management that avoids disaster without addressing structural causes; a "multi-speed" Europe with varying degrees of institutional integration; and the fragmentation of the Eurozone or even the European Union itself. Hutchings concluded by reaffirming the importance of the economic and political relationship between the United States and the European Union.

Following a brief introduction by Dr. Yanis Varoufakis, Yves Leterme began his talk by commenting upon the American public's unfamiliarity with the workings of European politics and with the challenges confronting the Eurozone. Leterme continued by clarifying the position of the OECD on the future of the Eurozone, namely that the Eurozone as it is currently organized is not sustainable and is in need of structural reform. Leterme qualified this statement by asserting that he is a "convinced pro-European citizen" and holds a decidedly optimistic view of the Eurozone's future. He then began to unpack his argument that the Eurozone can indeed be saved.

Leterme next reviewed the major events of the past five years, identifying several major challenges that remain in stabilizing the Eurozone: 1.) outlook for growth remains uncertain; 2.) public debt and unemployment remain too high; and, most critically, 3.) institutional and structural reforms must be implemented to ensure long-term growth. Leterme identified particular threats to the stability of European financial markets, highlighting the role of political uncertainty, social tensions, and the uncertain outlook for public finance in vulnerable countries.

Expanding upon potential threats to the stability of financial markets, Leterme identified three major risks: 1.) a failure to establish institutions and regulations that sustain European banks; 2.) a failure to establish adequate asset quality reviews and stress tests; and 3.) insufficient structural reforms within major debtor and creditor countries.

Leterme then identified four avenues through which a politically stable and balanced recovery might be achieved: 1.) stabilizing the financial sector; 2.) addressing long-standing fiscal issues; 3.) making growth-enhancing structural reforms; and 4.) rebuilding public trust and business confidence.

Regarding stability within the financial sector, Leterme advocated for improved stress tests, the establishment of a real banking union, and the continued inspections of the balance sheets of European banks. To that end, he emphasized the positive role of the European Central Bank in restoring competitiveness and improving risk perceptions. He also indicated that the ECB must be able to act efficiently and decisively in its actions, recalling that arriving at coordinated responses between seventeen members has slowed the recovery and promoted the fragmentation of the financial system.

Turning to his second point, Leterme called for fiscal consolidation and the stabilization of debt-to-GDP ratios across the Eurozone. He also advocated for an increased focus on sustainable and inclusive growth from the fiscal perspective, emphasizing job creation and the equitable consolidation of spending for education, health, and pension systems.

In terms of implementing growth-enhancing structural reforms, Leterme emphasized the danger posed by rising inequalities and the pressure disparity places upon social cohesion. On this front, he advocates for unemployment-reducing reforms, such as vocational training programs, that also spur growth. In this context, Leterme rejects what the OECD has termed a “false austerity versus growth dilemma.”

Finally, Leterme addressed the issue of restoring public confidence in the institutions at the core of the Eurozone and the European Union, more broadly. To do so, he advocated for reforms that clearly restore the growth potential of all economies in sustainable ways that ensure social cohesion and return a sense of regularity to European economic life.

Leterme then concluded his remarks by reemphasizing that European institutions must be endowed with the adequate tools and legitimacy with which to fulfill their core missions. The financial and economic crises, he noted, have end and what remains is a fundamentally political crisis. At the heart of that crisis lies discord over the range of political power enjoyed Europe’s central financial institutions. Above all, he concluded, the European Union and the Eurozone require both political leadership and political will.