

# &quot;Climate transition, transformation and convergence: Europe's path towards robust resilience&quot; – Speech of President Charles Michel



First of all, I would like to thank you for inviting me to speak at this 20th edition of your economic forum.

This year, by way of exception, the forum will be conducted virtually. And it is the exceptional nature of this COVID-19 crisis that I wish to address first, setting the context for the action we are endeavouring to take at EU level.

It is a simple yet astonishing fact: leaders throughout the world – regardless of their political orientations – have implemented extraordinary measures restricting freedoms. Economies have virtually ground to a halt. And for what reason? To protect people's lives and health. And as a former prime minister confronted with terrorist attacks, I can assure you that a decision to set aside or suspend fundamental personal freedoms is undoubtedly one of the most serious it is possible to take.

And the economic impact is also substantial: the European Commission is forecasting a 7.5 % drop in the EU's gross domestic product this year. And we know it will take several years to return to the pre-crisis level.

It is only natural that, ever since the first few days of the crisis, the political agenda has been driven by the health emergency and by the desire to save lives and to slow down and stop the virus. And we all very quickly realised what serious consequences the pandemic would have for the global economy.

At the forefront of efforts in this regard, the national governments have discharged their responsibilities in full, taking exceptional steps to support both workers and businesses. And this has been made possible by the decisive action taken by the European Union. As you know, ever since March, the European Central Bank has taken crucial decisions to provide liquidity support amounting to over EUR 870 billion, topped up by an additional EUR 600 billion in June.

In parallel to that, following the first video conference of the European Council on 10 March, we decided to relax the rules governing state aid and suspended the Stability Pact by activating the general escape clause, measures unthinkable just a few weeks previously. This enabled national measures to be taken which were unprecedented in terms of their scope and

speed. Among the EU-27, budgetary support has amounted to almost EUR 520 billion, representing almost 4 % of the EU's GDP, while the liquidity support has amounted to over 23 % of that same GDP. For France, for example, the fiscal effort represents 6 %. The decisive nature of these measures was summed up in the words of French President Emmanuel Macron: 'To do whatever is necessary, whatever the cost'.

If we have acted so forcefully and so quickly, it is because we have learnt the lessons of the financial crisis, in particular regarding the knock-on effects of a crisis and its dramatic and often long-lasting consequences for economic stakeholders. These are the hysteresis effects so familiar to economists. These effects are tangible: individuals who go through a long period of unemployment lose their skills, and businesses disappear along with their know-how. If we do nothing, we risk obstructing future growth. We wanted to break this vicious cycle without delay.

Next, it is clear that not all European countries have the same capacity to deal with the economic effects of this crisis. Without a joint European effort, there was a danger that economic divergence would have further deepened, jeopardising the level playing field and exacerbating disparities in the internal market. I was convinced, and I remain entirely convinced that a European recovery based on solidarity, requiring unprecedented financial resources, was and is essential, without ever losing sight of the purpose of this effort: greater convergence and resilience in our Union. Because economic or fiscal vulnerabilities of Member States are of course a risk to each of those states, but they also represent a serious risk to the whole system, in an integrated internal market with a single currency.

It is true that the European system of economic and fiscal governance, set up in the wake of the debt crisis, was intended to strengthen our economies and the fiscal capacity of our member states. Throughout my term as Prime Minister of Belgium, I could see how challenging it was to implement the structural reforms needed to achieve prosperity, how we encountered headwinds and obstacles along the way. And the European instruments which were put in place in the past, combined with national reforms, certainly allowed us to react more quickly and more effectively.

I learnt a lesson from that experience: growth in itself is not automatically virtuous. Inequalities, iniquities and disparities not only create legitimate frustrations but also represent obstacles in the path to prosperity.

Even before the pandemic, the European Union had laid the foundations for tackling these problems. In particular, in 2017 we adopted the Pillar of Social Rights, which I believe we should implement further. Reducing inequalities also improves economic resilience.

I am convinced about another point too. More than ever, we need this double project of major transformation for Europe: climate neutrality by 2050 – our Green Deal – and the digital transition, destined to put Europe at the forefront of using data, the natural resource of the digital world.

I'll focus for a moment on the climate transition – which of course

represents an existential challenge for humanity. It is no longer a question of choice, it is beyond doubt and is a necessity. And this absolute necessity is not at odds with economic development. It even represents, in my view, a powerful lever for prosperity, if we make the right choices. That means transforming – in an unprecedented way – our social market economies, to make a paradigm shift in order to protect natural resources and radically increase the circular nature of our economy. The decision made late last year to integrate the United Nations sustainable development goals into the European Semester, our economic governance mechanism, is part of precisely this same logic.

These transformations were in fact started before the crisis, and the pandemic has resoundingly shown just how interdependent our economic, social and environmental systems are. They are not parallel worlds. We must deal with them together, that is the only way to move towards robust resilience. There will undoubtedly be other shocks to come. We have to be better prepared, it is a duty for Europe, it is even a duty for humanity.

Resilience is in fact at the heart of the ongoing negotiations on the EU's multiannual budget and the exceptional recovery fund financed by Union borrowing. Interestingly, the focus of the debate has gradually shifted from the issue of borrowing and the balance of grants and loans, to the issue of where these amounts will go and how they will be spent.

There is, in my view, one other fundamental lesson to be drawn from this extraordinary crisis. While the financial crisis pushed us to put consolidating fragile public finances at the top of our agenda, this crisis has brought home what's most important: personal and collective well-being, embodied by a compassionate and caring society which, I believe, should be Europe's new horizon.

Perhaps it is time we agreed on new measures that are better able to reflect a society's performance in terms of prosperity and well-being. And this reopens a debate that's not new for you economists, on the nature of growth and the fact that it can't be reduced to value creation. The discussion launched in the context of the OECD by Joseph Stiglitz, Jean-Paul Fitoussi and Martine Durand with their report "Beyond GDP" is a source of inspiration for me. Allow me to quote that report: "the use of indicators reflecting what we value as a society would have led, most likely, to stronger GDP growth than that actually achieved by most countries after 2008."

This leads me to the final dimension of this matter, and perhaps the most important: the democratic dimension. The climate and digital transitions are a positive, unifying, extraordinary project. But we will not win citizens' support by using this growth indicator, which does not reflect the progress people feel in their daily lives, as the only measure. Quality of the environment and of education, access to healthcare, equal opportunities – in short, quality of life – must, now more than ever, be at the heart of our ambition.

Going beyond GDP – this is an issue, perhaps even an existential challenge, for the future of our liberal democracies. The forthcoming conference on the

future of Europe, which will, I hope, involve European citizens directly, must be the democratic opportunity to conduct this debate with full transparency, with vigour and with passion. A debate that starts out about economics, but that in the end is much broader, and that propels us towards a common future.

Thank you for your attention, and I wish you lively and fruitful discussions.