

Amigo Transcript

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It's a pleasure to be here today to discuss these interesting topics and I look forward to the comments by Alexander Graf Lambsdorff and just adding to the presentation I am also a senior fellow with a European Enterprise Institute which is an emerging think tank here in Brussels which I hope you will also get some more information about it in the future.

So I am going to speak briefly about the main message of my book, *The Guide to Reform*, which has the subtitle 'How policymakers can pursue real change, achieve great results and to win re-election'. So obviously the purpose of this book which was released in November is to encourage politicians to actually do more reforms than they are currently doing and I'm talking basically about free market reforms. So I start off this book with an infamous quote by Jean- Claude Juncker Luxembourg's Prime Minister as he said that "We all know what to do, we just don't know how to get re-elected once we have done it". I think that when he said that, at I think a press conference here in Brussels after an EU summit, it captures a political dilemma where many politicians feel that we know very well that we need to launch substantial reforms but we feel that we can not do it because it is too controversial and that there will be political disadvantages in terms of not getting re-elected.

So the purpose of my book is to try to solve that dilemma and to try and show politicians how to actually launch reforms and get re-elected. The first point that I would like to make is that suddenly reforms are needed and I look at the basically the oil- spending the industrial countries of the world just show that the wealthiest countries of the world may be the wealthiest but they also need reforms because they still have problems and they face increasing competition from other parts of the world so they have to reform to stay on top. So, we need to launch reforms because we want to raise economic growth, raise employment, we want to have more entrepreneurs we want to have better health care we want to improve education so there are many areas and many purposes of doing reforms so there is a need. And I think I have about 40 pages of references to academic publications and etc. showing there is a need to reform. And so of course the need to reform is to a different degree in different countries but there is definitely a need to do things.

Also because the world is changing we need to reform just to keep up with the changes. Then you have the question, in what direction should we reform? Well, during the past three decades, most industrialized countries have become more free market. We have actually launched a few reforms and we have become more free market because during the first decades after World War II, countries became more economically centrally planned. But since then we have become more free market and that is the direction that we should continue. I think that there are many conclusions about that from the academic research, etc. showing how economic efficiency would increase by actually rolling back the role of the state and increasing the role of the market. I'm not going to touch more on that issue because that might be an issue for a totally different debate but I have a section about that in the book as well with all of these references. I would just want to say that Mr. Junker is right. We all know what to do [for] we have tons of evidence, we have tons of recommendations from international organizations and we have lots of academic research showing we need to reform and we know basically in what direction we should go.

But then we have a number of opponents to reforms; we have risk aversion, which is very well known in psychological research that most of us are afraid of taking risks. We would prefer to keep what we have and not take the risk of getting something more. So[in] acting as voters afraid of risks we would rather vote for politicians that don't propose big changes. That makes it difficult for politicians to actually launch reforms. Then we have special interests [it] might be the farmers organization that wants more subsidies, might be some big corporation organization that wants some protection, [or] might be trade unions that want high unemployment benefits or labour market regulations and all of these special interests block reforms because they all want something from the state and they want everyone else to pay for it. So they will resist reform till the very last moment. Then we have sometimes media, the taboids might be a powerful opponent to reform showing always the short term losers from reforms rather than the long term winners. Then sometimes we have international organizations that block reforms; might be sometimes the European Union. Take the working time directive as one example, making it impossible for 27 European countries to compete in terms of putting an upper limit to the working time in the whole of the European Union.

So that kind of regulations in the European Union makes the union blocking possible reforms and decreasing institutional competition, which is harmful. So there may be many opponents to the reforms that we know would be very important. [It is here that] a very pessimistic book could end on that note. But my book is a very optimistic book because I start off by saying that in fact many countries have actually done a lot. Quite a number of countries have been able to reform substantially during the past two or three decades and I'm not just talking about European countries I'm also talking about New Zealand and Australia etc.. So most countries have actually improved the macroeconomic frameworks, and deregulated product markets and liberalized trade. But then we have a number of countries that have done much more than that.

We have New Zealand deregulating the labour market in the mid-1980s and they haven't had basically a problem with unemployment ever since it has been 2 or 3%. We

have Ireland for a long time the poorest country of Western Europe; now is one of the wealthiest countries in the world after a series of reforms. One reform was decreasing the corporate tax rate from 50% to 12%. What happened? Well, 1200 multinational companies established in Dublin, average income in Ireland increased by more than 100% in 10 years and government revenue from corporate tax became four times higher when it was 12% compared to when it was 50%. We have my home country, Sweden, has done a lot among other things a pensions reform reducing public pensions levels, introducing private pensions and free competition. We [also] introduced Milton Friedman's idea of school vouchers.[School vouchers] is school of choice you get the amount that it would cost in a public school and you can choose any school. So we have a rapid expansion of private schools and thereby more competition and improvements in education quality. We have the Netherlands that did a health care reform which has been very impressive and in the last few years have every person in the Netherlands now has a private health care insurance. So they can choose between different private insurance companies and in so they can compete and their insurance companies buy the health care from private providers in a free competition.

We have seen that people use that opportunity to choose and we can see that the competition has already led to decreasing prices on health care. You look at Eastern and Central Europe and they have come immensely far compared to where they were when the Iron Curtain fell. So [at] least 22 countries, most of them in Eastern and Central Europe, have introduced low and flat taxes and I could go on like this. Many countries have done a lot. Australia has 12% of their adult population in entrepreneurial activity following deregulations and tax cuts for entrepreneurs. In Sweden it is 3.5% and of course the entrepreneurs are creating the new goods and services and jobs of tomorrow so it has been possible to launch substantial reforms in a number of countries despite these very frequent and common obstacles. These free market reforms that I am talking about have often introduced substantial results that have been more positive than anticipated.

So why are politicians so pessimistic like Mr. Junker. Well, I think they believe in a few myths. The first myth is that you can not reform in good times; we have to wait for a big economic crisis. That's not true because several of these countries that I have looked at, which is basically the 12 most reforming countries have reformed in good times. Most labour market reforms have been done in good times. They also believe that socially excluded groups will be suffering from free market reforms, which is not true because these groups are normally the ones that win the most from reforms. It's the unemployed that get the new jobs, the low income earners that get the biggest income increases. [But] above all, they believe that if they launch substantial reforms they will not get re-elected. That's possibly the most hazardous myth of all because of course politicians care about the economic results and the social results but they do most care possibly mostly about with the exception for Alexander Graf Lambsdorff of course, they care about political benefits from doing things. So if they believe that they will not get elected, which they do, they will possibly resist doing reforms.

But in every one of these twelve most reforming countries, the reform governments have always been re-elected at least once. So it is true they have always been re-elected with one exception it was one Swedish government in the early 1990s. [Actually] quite a few governments that have done nothing were actually not re-elected. [Also] I think they underestimate a few opportunities. One opportunity is that one wave of reforms is usually followed by several other waves of reform. Another opportunity is that both left and right in politics have sometimes managed to do reforms.

Then you might ask; so it is possible to reform but how have they done it? Well, I think I have identified a few frameworks that are usually in place that facilitate reforms. First of all, a stable macroeconomic environment makes it easier because if you have chaos in the macro economy then politicians will have to focus on that and they can not focus on reforms. So you have to have that in place. Another framework is what kind of constitution you have if it puts limits on the public power and if it makes regions able to compete about the best policies that will facilitate good policy and reforms. Independent ideas from think tanks like the Stockholm Network and the European Enterprise Institute are very important because politicians don't get all the reform ideas by themselves. So if you have a vibrant debate in society with many voices and many analysts and writers etc. with new ideas one or two or three of those are bound to at some point get into the governmental quarters and the party programs. So these are a few frameworks that facilitate reforms.

But then you might say well this all sounds very good but governments can not just do it like that and get a new constitution. That's true, it is not really within the grasp of government to change but there are also a few strategic points that I would like to make that I think make it easier for a government to actually to get the reform, get the good results and get re-elected. First of all you need a mandate to do reforms because without a mandate people will protest you need to ask for a mandate. When you have that you could just say that I'm just doing what I said I would do. Then you need quite substantial reforms because only substantial reforms will produce substantial results and that's what you need. You need to be quite quick in doing reforms after the election so that the good results will come before the next election. You need to be very determined because the opponents that I mentioned will definitely be there they will protest they will be against you. So you have to prepare for that and you have to try and stay the course despite all these opponents because if you compromise and if you water down the reforms then the results will be smaller.

I think also there are a few more points in my book. But you have to consider implementation, seeing to it that the civil servants actually do as they are put there to do [and] that they actually implement the decisions because in several countries implementation is very difficult. Then of course last but not least you have to win the story of reforms afterwards. You have to tell people why you did the reforms and which results it gave and why it was good because that is how you will get the support to actually do more and to get into this second wave.

So these are some of my main conclusions from the book and of course here in Brussels I can not resist just talking a moment about the relation the European Union and the United States. It's been said and I have said that I think at least 1000 times that Europe has been declining economically and socially compared to the United States and that has definitely been true for 30 years due to them reforming in a free market direction and Europe not because we have stuck to the old social model. But I think that during the past 2 years European growth has been higher than American and for the coming 2 years it will also be higher. But of course that's temporary partly because the U.S. is in this financial crisis and recession. [Regardless] I think there are some structural reasons as well which will actually lead to I think much more of a European dawn in a way Europe coming back.

I think during the past 10 years Europe has reformed very much in free market direction, thanks to Eastern and Central Europe not least reforming and then putting Western Europe on to more competition. Also the European Union has helped by creating the single market which has boosted the need to reform. So I think that Europe has reformed to a very substantial extent. France and Italy have not. France and Italy still need to do very many things and of course the other countries need to do things as well but much has been happening and I think that we will see the results. We can see that last year only 19 European countries increased their economic freedom and that's quite substantial improvements and I think Europe is reforming and Europe is to a large extent in the right direction whereas the United States has actually decreased its economic freedom. It has expanded the size of government and has strong protectionist tendencies and I think these things will actually lead to perhaps that Europe will be catching up against the United States finally. That is thanks to reforms taken place, thanks to the fact that we have institutional competition in Europe.

So that's just a few remarks just to conclude this optimistic description of why reforms are needed and how reforms can take place and how reforms have taken place with great results. I think we should learn from that today because we need to do more things and there are economic rewards [and] social rewards for politicians but also political rewards from doing reforms. So I'd just like to end with that quoting from a famous Trademark, which is "Just do it". Thank you.

Graf Lambsdorff: Well, I have been asked to comment on what we have just heard and true to this sort of role assignment I have jotted down a couple of notes in which I will now literally go to comment and make a couple of points that I think deserve perhaps further discussion. One of the things and let me say that before we came into this room I was afraid that I would have to say well I agree with everything and sit down again I'm happy to note that there are some elements that I may add and some things where I would take exception.

First of all, I think one thing that we need to think about is that the word reform in itself is an empty shell. A reform can be a change of policy in either direction and this is where an element comes in that I believe has not been addressed in its conviction. You need to be convinced that the direction of reform is a good one and this is where we

part ways among politicians. I mean we have this debate in the European Parliament on the Lisbon agenda. My conviction is that competitiveness is a precondition for social cohesion and environmental protection there are others in the Parliament who are very clearly saying no that is a wrong conviction they are all equal. Social cohesion enables us to become competitive and environmental protection provides us the quality of life we need to have to attract people who enable us to compete. Well I believe that's wrong. It's not completely unreasonable but I believe at the end of the day, bottom line when you have to make choices we need to be competitive first and foremost and that's how we finance our social systems that's how we afford higher environmental protection.

A second element that I believe is very important and that it contributes to the fact that we have such a bloated role of the state and on that I fully agree with our two previous speakers. If you think about it the six founding members of the European Union have no conservatives they only have Christian Democrats. Conservatives while I disagree with many of what they have in the social field on the economic issues if you look at the Tories in the UK for example or at the old school republicans in the United States they are economically liberal they are free traders they want a limited role for the state they want a simple and efficient tax system with low rates. Christian Democrats aren't like that Christian Democrats have been branded and I put this in quotes in quotations marks "church going social democrats" and if I look at the country I know best to use this terrible Brussels thing i.e. Germany, the country that I come from that's the fact that's clearly true of the majority of the people in the Christian Democratic party.

Now fortunately, and thank God for them this is completely different is Central and Eastern Europe and I fully agree on that point in Central and Eastern Europe you now have people from across the board who have this classical liberal approach to economic reform. I'd just come back from Tallin I spent a weekend in Estonia you know spending a nostalgic weekend I have to say because I worked for The Economic Foundation there in 1995. I will never forget the Estonian tax code of 1995 because I had it in my own hand it was a little pocketbook you know it was like this and it was all the tax law there was in Estonia. I thought this was a dream come true the German tax code looks slightly different a single person would probably not be able to lift it So thank God for the Central and Eastern Europeans thank God for the competition that comes from it and Thank God a new and reinvigorated debate hopefully inside the EPP on that because I think this is where this has to take place.

It was said that the media are opposing reform in the way we understand it or the way we would like to see it that is true but I have to say that at least in some areas the tabloids particularly have been helpful in Germany I don't know how that is in other countries the press landscape of course is very national but the Bild-Zeitung, Europe's largest circulation newspaper if I'm well informed with 10 million readers each day has of late been very clear on the need for tax cuts on balanced budgets on generational equity. We just passed a gift to old folks in Germany increasing the burden that's put on the younger generation that has to finance that you know a couple years down the road. Incredible, absolutely incredible and the tabloids have been out in front attacking that

actually quoting pensioners retired persons who said we don't want to live off our children's fortunes and that I think was a quite useful thing.

But I believe that the generalization for tabloids vs. broadsheets doesn't always hold; the broadsheets are more difficult because the journalists who work there at least in Germany in many cases the political section the cultural section that frame the debate all they tend to have a left leaning attitude a sort of left, liberal kind of attitude which I sympathize on social policy but on economic issues it's not very helpful at all. I was also very happy to hear and I think that it's an important point that the European Union has been the major driver of Economic liberalization in Germany no quite excuse me in Europe in all of our countries.

Why is that? I believe one of the reasons lies in just what you mentioned the risk averse of politicians because it's possible for politicians to hide behind what Brussels does never mind that they sit in the council meetings never mind that no decision is taken without the national governments being perfectly informed about them never mind that you know the journalists have now slowly slowly taken up the fact that decisions are prepared here and that they can transport this into the media in our home countries the EU I believe if you look at telecommunications traffic you know public procurement whatever it's where there is a competence trade of globalization wherever there is a competence the EU has been very useful and this is of course fully in line from what you quoted from Jean-Claude Juncker we know what we need to do we just don't know how to get re-elected once we've done it well most of these politicians don't want to get re-elected at this level and that's why they can have these decisions here in Brussels and can hide behind them.

There was one point that I jotted down that I thought was very important that is the point of implementation. Implementation is going to be I believe one of the major issues of debate for the single market in the next couple of years because the countries that do implement faithfully if belatedly sometimes start to take exception with the countries that don't. I can tell you that the pictures from Naples and the garbage affair there did not play well with people back home when we discussed the next framework directive on waste you know I mean you can have directives and directives and regulations and regulations but if you see these pictures with one of the from one of the founding members you feel well maybe not every article was implemented completely and faithfully, but it illustrates something larger we want to see equal implementation of single market legislation and we want the public authorities and the member states to stick to them again. Germany we are always late but then we do it with Teutonic thoroughness and so this is a topic of discussion that I believe will also play a role for example in the Netherlands I suppose or in the UK.

I forgot one point on Central and Eastern Europe I you know I thank God that they are there and that the debate on reform has been reinvigorated but this is politically the pressure that is generated by this debate politically it is a difficult debate even now in the UK even now in the UK it used to be difficult of course for all the countries that had direct borders anyway Austria, Germany and Italy we have these transition periods

for you know workers who want to come and live in Germany something I am opposed to but which still will get extended to 2011 because no body can afford not to do that politically in the German government but now it is going to be difficult politically as well and once 2011 comes around we will see a new kind of reaction around immigration.

What do I believe what is the big challenge for us now one I said was equal implementation the second is to get the leaders to get their act together France and Italy have been mentioned I will mention Germany we've just seen a rollback we have had a health care reform that carries the labour reform but increases the role of the state diminishes competition does not provide people with a choice but has one central fund for all health insurers no matter how efficient they are and if you are less efficient you get money from the fund to make up for it I mean this is it is completely ridiculous. So I think that we need to keep the pressure up on the leaders. So this is one challenge and then I believe defining the market for the 21st century reaping the benefits really of the digital economy which we haven't done yet at the European level we are still too much divided along national lines I believe that there is much more potential for what I call market 2.1 the market for the 21st century we need more consumer choice more consumer benefit we also need some equality consumer protection in this market because that is one of the more difficult points of course bottom line I believe that the EU and this is something that is my final remark that the EU is a major driver of economic reform in Europe old and new it's something that I keep telling our American friends.

I was once at a breakfast one of these Wednesday breakfasts at Americans for tax reform in Washington D.C. you know everybody speaks for two minutes maximum which is not a problem for someone coming from the European Parliament the first speaker there was however to speak on the same topic that I was Nigel Farage of the United Kingdom's Independence Party who was fiercely anti-European and he's a good speaker he's a very good speaker and he generated a lot of applause and I think that this is one of the most major mistakes of the American Conservatives that they believe that the European Parliament is a problem for them. If the European Parliament wasn't there they would have a real problem because we would be at each other's throat again I suppose. Now that the Soviet Union is gone. So I believe that the European Union is strong it needs to be strengthened and that is the point where I would take exception with your final remark I believe the EU needs to be more than a trading bloc and we need to continue to work for a political union we need STF and ESP to develop I hope that Sarkozy is doing something on that vector in his presidency because I believe that if we don't get are act together politically we won't matter economically that much either.

Thank you.