

E3G

Keynote Address EEB Annual Conference 2006

“Europe's continued prosperity requires leadership on sustainable development”

Nick Mabey¹, E3G²

September 2006

Good morning ladies and gentlemen.

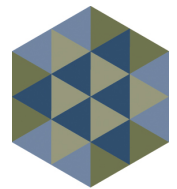
Firstly, I would like to thank John Hontelez and the EEB for inviting me to give this keynote address. It is both a great honour and a rather daunting prospect given the distinguished and highly knowledgeable audience I see in front of me.

Before I start I thought it would be useful to give a brief introduction to E3G – Third Generation Environmentalism – and to myself, as we are both newcomers on the Brussels environmental scene.

E3G is a relatively new organisation co-founded by myself, Tom Burke – formerly on the executive committee of EEB - and John Ashton who is currently on secondment to the UK government as their first climate change ambassador.

¹ Nick Mabey is chief executive of E3G and can be contacted at nick.mabey@e3g.org

² E3G (Third Generation Environmentalism) is an independent organisation that works in the public interest to accelerate the global transition to sustainable development. For the last 18 months, E3G has been exploring the potential for a new political prospectus for Europe that would enable it to respond effectively to the challenges of global interdependence. The themes in this speech have been developed through a series of discussions with senior political and policy professionals across Europe. This work has been financially supported by the Italian Ministry for Environment and Territory. More material on E3G's European programme can be found at www.e3g.org



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We don't like to tie E3G down to one definition, because it is still evolving as an idea and organisation. But when pressed we call ourselves "change agents for sustainable development" or sometimes "entrepreneurial diplomats". The focus of our work is to accelerate the transition to sustainable development. We do this by catalysing specific agreements between organisations who share our aims in all sectors: governments, businesses, NGOs and academia.

My own history exemplifies this cross-sectoral focus. I have worked in the energy industry, academia, the NGO sector and the UK government. I sometimes refer to this varied past as the "Zen approach to career planning" - though others have suggested I am just rather confused! Despite appearances there is a unifying theme to my personal journey. It has been an attempt to understand how decisions and changes actually happen to deliver the sustainable development objectives.

My last role before joining E3G in January this year was working in Tony Blair's long-term strategy unit. This gave me a privileged top-down view of how political change works – or fails – across a range of critical sustainable development areas from fisheries to climate change to conflict prevention.

This experience strengthened my view that achieving sustainable development will take profound changes in our political, cultural, organisational and economic systems, and we currently have far less ability to drive this change than we will need.

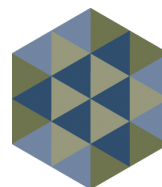
This experience at the heart of the UK government also confirmed my view that Europe and the European Union is the essential global actor in achieving sustainable development.

Finally by way of a rather long introduction I must thank the range of politicians, policy makers and experts across Europe who have discussed, debated and helped develop these ideas over the last 18 months. E3G always aims to develop propositions through a process of engagement with the political and policy world, as we find this the best way to ensure relevance and rigour in our work.

I hope you will feel the same after I have finished speaking!

Europe's continued prosperity requires leadership on sustainable development

There are three core propositions underlying what I am going to say about why Europe's continued prosperity requires leadership on sustainable development:



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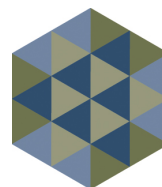
- Firstly, for too long the environment community has been forced into a defensive debate over whether there is a trade-off between protecting the environment and European competitiveness. In a world of accelerating climate change and \$60-70 oil these arguments have no relevance, and this debate needs to be reframed. The European and global economy cannot continue to generate genuine wealth without rapidly improving resource and energy productivity, and implementing these policies brings benefits today.
- Secondly, environmental and resource limits are now at the heart of geopolitics, economics and security policy. Europe needs to become a global leader in driving cooperative sustainable development if it is to preserve the conditions for its own future prosperity. This is not philanthropy, but a matter of core strategic interest for Europe.
- Thirdly, Europe uniquely has the political and economic assets to take this leadership role. However, these assets cannot be mobilised without economic confidence across Europe, as this is need to underpin political support for an expansive and global agenda in areas such as climate change, resource efficiency, energy security and neighbourhood policy.

Though we have all argued for “mainstreaming environmental issues” and achieving “policy coherence” for years, it is only now that environmental and resource constraints are really biting that this is becoming a political and policy reality.

But just because environmental drivers are beginning to be recognised in other policy areas, it does not necessarily result in the type of co-operative, preventive and human-centred approaches the sustainable development community has been promoting. Policy makers in the security, diplomatic, energy, economic areas are as likely to respond to these challenges in a defensive, reactive, short –term and exclusionary manner. Building walls to manage environmental migration; making diplomatic deals to secure resource supplies; applying sticking plaster humanitarian responses to conflict and natural disasters.

I have recently had discussions with military planners in several major countries on the issue of climate change and future conflict; this has confirmed their growing interest in “hard security” responses to what we still think of as an environmental issue.

Only by fully engaging in these policy debates and showing the relevance of stronger environmental and resource policy for achieving security and prosperity, will the types of outcomes we want be achieved. The following discussion is an attempt to do this, focusing on the economic challenges facing Europe.



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Prosperity is the Foundation for Political Action

Prosperity is the foundation of political stability, and the motor of effective political action. Europe has long and bitter experience of how economic depression and inequality can fuel political extremism and armed conflict. These lessons form the central founding principle of the European Union: that economic interdependence between states – not strategic competition – is the foundation of prosperity and stability.

In a world of accelerating globalisation, where the need to adapt economically drives social and political tensions, Europe's successful response to its past mistakes carries a global lesson.

However, at the time when Europe should be leading efforts to construct a stable and open world system to manage these tensions, Europe faces a crisis of economic confidence. Only 6% of its citizens think it will remain an economic superpower, and only 16% see globalisation as an opportunity.

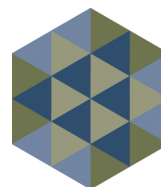
This lack of economic confidence undermines Europe's ability to act globally to maintain the conditions for its future prosperity and stability.

As a result, the political debate on European reform has often become a caricature of choice between risky and uncaring Anglo-Saxon dynamism, and secure and fair Continental decline. This framing is neither accurate nor useful. Neither model has the answer to the challenges that face Europe in the coming decades, as we attempt to manage the rising prosperity and expectations of 6-8 billion people on a planet where environmental and resource limits have already been reached.

New Challenges, New Fears

Europe does face new economic challenges, but also has many misplaced fears. Long-term and youth unemployment is unacceptably high in several European countries. Competition from the US and Japan is now compounded by the rise of new economic powers led by China, India and Brazil. The aging and stabilisation of Europe's population will reduce the raw growth rate of the economy, and increasingly tight resource and environmental constraints are driving higher prices and threaten to undermine economic development in large parts of the world.

The first step in facing these challenges is to regain perspective on Europe's economic performance. The greatest difference between recent European and US economic performance is the faster growth of the US population and longer hours worked. The EU will remain the world's largest trading region and source of outward investment for at least twenty years. The EU adds around



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two times more global purchasing power every year than China does, and will outstrip China as a growing market for around 20 years.

Despite the often doom-filled rhetoric, Europe will retain significant power to shape the global landscape for at least the next two decades; if it chooses to exercise this influence.

The root of current concerns among European citizens lies in a failure to generate adequate employment. It is unsurprising then that reforms which are perceived to reduce employment protection and increase economic competition are not politically popular.

There is also often confusion – deliberately spread by partisan commentators in publications like the Economist - over whether Europe has the long-term fundamentals for healthy economic performance, or is it somehow intrinsically crippled by demographic, cultural and structural weakness?

Happily the majority of serious economists take a more optimistic view. They agree that Europe's current employment problems are not part of a long term trend connected to demographics or global competition. There is no economic reason why an aging society should create fewer jobs, and many reasons to expect increased employment demands in critical age-related service areas.

This is where the focus of Europe's political leaders appears to diverge from public concerns. The Lisbon agenda often seems to be more about European leaders' perceptions of the falling "economic power" of the EU relative to other major countries, than to be an attempt to secure prosperity, well-being and security for European citizens in a changing world.

The resulting debate uses exaggerated fears about Europe's long term economic viability to push through reforms. But these fears over long term prosperity are creating a debilitating lack of political confidence. Producing political stasis just when Europe needs to make critical choices to preserve its future prosperity and security.

Interdependence not Competition

Europe is not alone in facing these long term challenges, and is better placed than most to manage them successfully. To hear many commentators the biggest threat facing the EU is the stabilisation of its population over the next 50 years. However, Japan and Russia are already managing the economics of a falling population. China and the US face also shrinking proportions of workers in the next 15 years.

The environment movement should be the first to point out that this is a global transition that should be welcomed not feared. It will be a challenge to deliver stability and prosperity to 8-10 billion people, many of whom are extremely



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poor, when we have already exceeded the planet's environmental and resource limits. But this is a lot better than having to manage a world with 15-20 billion people, as was often predicted 20 years ago.

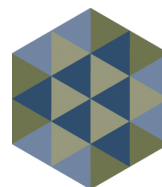
An immediate consequence of this welcome population stabilisation is that all industrialised countries will have to deal with a relative increase in older people. The EU is changing faster and sooner than some regions, but is not fundamentally different. Indeed, the EU is fortunate to be one of the first to undertake the demographic transition to a stabilised population, because we will have the opportunity to invest and trade with fast growing, younger economies.

China in particular is vital in helping soften the impact of Europe's demographic transition. Estimates are that continued Chinese growth will raise real wages in the EU by between 15 to 40% by 2050 compared to a "slow growth" China scenario. This increased growth will allow lower taxes on workers to finance pensions and healthcare, improve employment rates and make economic space for increased public investment in areas like climate change. However, this positive outcome will require China to find solutions to its own sustainable development problems.

All Europe's prime "competitors" face their own critical economic problems. The US has runaway deficits and crippling inefficient health care policies, which have destroyed the competitiveness of much of its automotive and manufacturing industries. Even as the rest of the world is focused on their increasing external power, internal debates in all the emerging economic powers focus on the growing challenges to their internal stability. China and India in particular face instability from endemic corruption, rising social inequality and unrest, and water shortages.

Even the largest economies are vulnerable unless they learn to collectively manage a world of climatic change, resource constraints and interlinked vulnerabilities; and the cost to poorer countries of richer countries failing to manage these challenges will be felt globally through humanitarian, security and political crisis and conflict.

This future environment makes redundant many economic assumptions held by policymakers. The rise of China and India is making global economic interdependence a hard reality. Aging populations will force a redefinition of what counts as economic success, and require a new social bargain between generations. The need to keep within natural limits is already fundamentally changing the role of the state in the economy, and is exposing previously hidden assumptions about ever falling costs of transport, materials and energy.



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The EU must back its hard-won insight that embedding economic interdependence inside a fair, rules-based system does benefit all. This insight underpinned the creation of the EU, and should continue to guide Europe's approach to wider globalisation.

The alternative leads to a situation where a number of “great powers” attempt to compete strategically for global market share and access to natural resources.

Experience shows this type of world results in neither stability nor prosperity. The EU is poorly placed to compete as a great power, and surveys of European publics have repeatedly shown a lack of support for Europe taking such a military-driven role.

Managing these multiple transitions will require all countries to achieve cooperative “sustainable development”; preserving their social and environmental foundations of prosperity in an interdependent world. The consequences of not making the necessary choices will be expressed in growing political instability, economic crises and conflict.

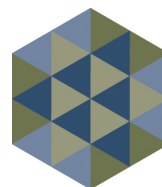
Europe will be one of the first to face these transitions, and has the most to lose if they are not managed well. As the world's largest economy Europe should be the pathfinder towards sustainable development for others.

Using Europe's Assets

Europe has a good record in providing prosperity and stability, and has strong assets for delivering it in the future. Unfortunately, the current European reform debate does not build on these assets to generate a positive offer to Europeans of how they can successfully face the future. Europeans – in all their cultural, economic and social diversity – do not want to compete with the US, China and India by becoming like them. They want to compete on European terms and while preserving what they value about European approaches.

Europe's future prosperity will be based on its assets of a deepening single market, the efficient regulatory system, network of dynamic urban economies and critically its ability to invest in the public goods underpinning economic prosperity.

Economic logic means that the single market will continue to deepen and drive up efficiency, with enlargement adding further assets and dynamism. The EU's system of competition policy, state aid rules, consumer and environmental regulation uniquely forces companies to compete on product quality and service, not regulatory loop holes.



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EU regulation is now becoming the aspirational standard in emerging economies; from textile standards in Thailand to car emission standards in China. This provides markets and opportunities for European firms.

Europe's network of major cities leads the world in global economic integration; with seven European cities in the top 15 connected cities, compared to only three US cities. In the EU15 these city networks accounted for nearly 70% of total GDP and job creation in the last 5 years; and similar trends are appearing in the EU10.

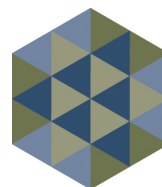
Europe also leads the world in generating innovative approaches to driving the "public purpose" economy; such as the European Emissions Trading system to tackle climate change. Many of the fastest growing areas of the economy are in areas where the public interest is critical such as healthcare and environment. Europe's ability to drive new public-private collaboration in these areas gives it a strong advantage in wealth creation.

Finally, Europe has the best record of any major economic power of generating political support for investment in the public goods underpinning the economy: in healthcare; in pensions; in social security; in education and research; in tackling climate change and preventing poverty and instability outside the EU.

The hard won acceptance that public goods such as healthcare and education should be provided communally (even if mechanisms differ between countries) represents a clear source of European economic advantage. In contrast, in the US, China and India public underinvestment in education, infrastructure and healthcare is regularly cited by business leaders as a significant source of competitive disadvantage.

These assets provide a firm economic basis for building a new political offer which reflects the true long term challenges Europe faces, and builds public acceptance for change. A credible offer which could win public support will need to:

- redefine economic success as total GDP growth slows;
- build new opportunities for all European youth;
- generate a new intergenerational bargain on sharing necessary higher public investment in pensions, healthcare and measures to tackle climate change;
- use the Lisbon agenda to drive radical increases in resource efficiency across Europe; and,



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- devote significant amounts of political energy and public investment to building the foundations for sustainable development globally.

Redefining Success

We have no choice but to go through a demographic transition, the question is how well we manage the process. The criteria for success cannot be raw GDP growth rates; these will obviously fall as growth in the European workforce slows and then falls. Europe needs to redefine what economic success means in order to maintain economic confidence in the face of reduced growth.

Europeans need to understand what tangible gains will come from accepting increased economic risks. The promise of higher income is not attractive enough on its own, as surveys show that Europeans – at least in the EU 15 - increasingly value gains in security, welfare, health and time reductions more highly.

Europe has the advantage of being the most successful region in the world at creating the public goods which people value. OECD analysis shows that across an aggregate of different social indicators the US underperforms all the EU 15 countries.

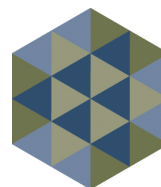
This also raises the “real” productivity of the European economy. For example, WHO figures show that the EU15 achieves better aggregate health outcomes for under half of the total per capita health spending of the US. The countries regularly seen as most competitive in the EU - Finland, Sweden, Denmark, the Netherlands – all invest highly in these public goods and all sit at the top of European life satisfaction surveys.

Europe also has a remarkable record of generating both social justice and social mobility. Public investment in education, housing and healthcare has weakened the link between background and destiny across much of Europe. Measures of social mobility seem to be significantly higher in the EU than the US, and is highest of all in the Nordic countries.

In contrast, most productivity growth in the US has been captured by a very small portion of the population. From 1966 to 2003 90% of income gains went to the top 10% of wage earners.

Building confidence in Europe’ economic future through the coming demographic transition, requires a focus on the quality rather than the quantity of future growth. This should be underpinned by imaginative and meaningful set of measures of sustainable prosperity covering areas such as well-being, income stability, human capital, environmental quality and social mobility.

Building a new European Social Bargain for Youth



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The European social offer must be compelling enough to encourage greater risk taking, personal investment and entrepreneurial activity and avoid an ultimately doomed retrenchment into the politics of insecurity.

In a continent with a declining proportion of younger people it is imperative that Europe is an easy and attractive place for young people to set up in business; for Europeans and talented people globally. Inside Europe, London already acts as a hub for young global and EU workers and entrepreneurs, attracting up to 250 thousand young French people alone.

Europe's increasingly globalised cities should cooperate to form the basis of a common entrepreneurial network to attract European and global talent; developing entrepreneurial zones with time-limited incentives for younger business people.

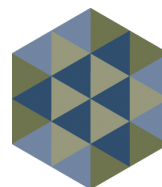
Another critical area where there is an urgent need for a cross-European approach is in the integration of immigrant communities. A disproportionate share of the future European workforce will come from ethnic minority communities which currently suffer from the highest levels of unemployment and social exclusion. ECOFIN also assumes an extra 40 million immigrants into the EU by 2050, and this is probably an underestimate. The integration of migrant communities, especially future generations of Muslims born in Europe, requires a concerted pan-European model to ensure a framework of common standards and approaches.

A concerted approach to EU policy on integration and anti-discrimination needs to include a more consistent, scaled-up and subtle approach to external relations in the European neighbourhood. As the Danish cartoon crisis showed, Europe is increasingly seen as a unitary actor in key neighbourhood countries in North Africa and the Middle East, who are likely to supply the majority of future economic migrants. Problems with communities in any part of Europe will affect all European countries' ability to attract valuable labour and integrate communities.

Generating Intergenerational Cooperation

The combined logic of the challenges facing Europe is that the critical political fault line in the future will not be between insiders and outsiders in the labour market, or between labour and capital, but between generations.

Future trends place higher costs on the young and give benefits to older citizens. Increasing global competition is raising risks and reducing job protection for the young; while the economically established face lower prices and higher returns on their investments.



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The demographics of the post-war bulge will result in high dependency ratios, social security and health costs for younger generations; but fewer secure benefits for those who shoulder these burdens.

Tightening environmental constraints will need to be managed by a younger generation which has not benefited from the era of cheap fuel, and who will bear the direct legacy costs of climate change, water shortages, environmental disasters and biodiversity loss.

Younger generations have no choice but to accept higher future economic and environmental risks, and will in part be compensated by higher incomes. However, this must be accompanied by a fair burden sharing of public investment between generations in social security, health care, energy security and climate security.

If such an intergenerational settlement is not forthcoming it is likely that the European social contract will fail. The most productive of the younger generation will leave for lower tax countries, and the remaining population will face large incentives against taking employment.

An equally disturbing risk is that these fiscal burdens may lead to a rejection by younger workers of higher public investment in securing Europe's long term future, either to tackle climate change and energy security, or to invest in political stability in Europe's neighbourhood.

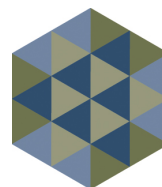
Again Europe is not the only one facing these problems. The US has a huge amount of unfunded social security liabilities. China has yet to construct public mechanisms to look after its growing older population in the face of rapid failure of traditional family systems.

Europe has to take an interest in how these imbalances are managed, as they will be critical in other countries being willing and able to play their necessary role in tackling climate change and other global problems.

This generational tension is not an issue of the distant future, but is embodied in current decisions over the resource use burden implied by critical infrastructure investment.

Investing Intelligently for the Future

In a world dominated by uncertainty some things are clear, the era of cheap natural resources is over and carbon constraints must be an ever-tightening reality. Europe will also soon face the need for large reinvestment in basic energy-using infrastructure, including 50% of its current power stations over the next 25 years.



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This long-lived investment needs to be resilient against the global realities of 2030, not just the short term economic demands of today. Failure to achieve this now will leave a legacy of costly, inefficient infrastructure, which the younger generation will need to invest in replacing or retrofitting. By raising the future cost of lowering carbon emissions we will lower the likelihood of a political decision for climate stabilisation below 2 degrees.

Europe is already one of the world's high efficiency economies, but could do a lot more. Hedging against future risks will involve investing in flexibility and avoiding rigid "mega-solutions": road pricing to reduce congestion not new motorways; energy efficiency not new power stations; water efficiency not new dams; European innovation networks and entrepreneurial clusters not new European industrial champions.

All these solutions will generate immediate benefits by radically improving resource productivity in the European economy, alongside increasing labour productivity. For example, European car efficiency policies – though only partially effective by environmental standards – have saved the EU 0.5% GDP each year in oil costs since 2003 compared to if our transport system operated at American levels of inefficiency. This productivity gain far outweighs any measured impact of the Lisbon agenda on the European economy – and we could do far more.

The EU is uniquely positioned to drive this revolution in the "intelligent infrastructure" needed to support sustainability, because of its experience of developing innovative and pragmatic public-private partnerships and high-levels of public support for tackling environmental problems.

Europe can use public investment and incentives such as the EU Emissions Trading Scheme to promote innovation and lower future costs. Strong signals now to EU investors will prevent wasteful and obsolete investment, and acts as an effective R&D credit.

The upcoming budget review in 2008 should reallocate existing EU resources away from securing food security and towards investment in climate and energy security. European structural programmes should be focused on driving efficient infrastructure and climate proofing in the poorer member states.

Europe must harness the diversity of its member states and consumers as drivers for innovation. The public benefits of liberalisation in terms of reduced waste and pollution (when accompanied by appropriate framework regulation) seldom feature in European debates, but could be a powerful driver for change.



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One of my first jobs was working in the UK electricity industry as it went through privatisation. Previously attempts to build a viable UK industry in wind and wave power and combined heat and power had been blocked by the nationalised industry, including through scientific falsification. Privatisation removed many barriers to innovation and new ideas, though weak regulation allowed private monopolists to stifle the CHP industry for many more years. The lesson I took from this was that competition and liberalisation are strong drivers of efficiency and environmental quality, but only inside a strong system of regulation; including the protection of workers and consumers rights.

Aggressive liberalisation of services, networks and resource using sectors can be strong driver for resource efficiency and innovation, if harnessed inside a clear framework of European rules. The Lisbon Process should prioritise progress on competition and innovation in areas of high energy and resource use such as transportation, utility networks, construction and chemicals.

Building a World Safe for Europe

But it is not enough to change policies inside Europe, we all know we must drive change globally to achieve sustainable development.

Taking interdependence seriously requires the EU to create the international conditions for its own future prosperity, as well as addressing internal economic challenges. This is the natural evolution of the core European project.

Economic interdependence also means that the EU must help create the conditions for others to manage these common challenges successfully. Global economic and political disruption will have increasingly large impacts on the EU; as recent energy security issues have shown. Europe cannot isolate itself from these effects, but must work with others to tackle problems at source.

Managing Scarcity by Building Sustainable International Rules

Europe will remain one of the major economic players on the global stage for the next 20 years. In this period, Europe has the opportunity to shape the international legal environment to promote the type of sustainable development it aims for at home.

Current EU policy in on trade, investment and other rules is still focused on short term economic gains and fails to support Europe's long term strategic interests, because of this often lacks broad international support. However, Europe has the ability to build a wider coalition for stronger international economic governance.



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The alternative to a rules based system is a situation where a number of “great powers” attempt to compete strategically for global market share and access to resources such as oil and gas; using financial, diplomatic and military power to secure their aims.

However the danger of falling into such a world is real. For example, as demand grows global energy markets are becoming less market driven as state energy companies aggressively buy up resources, and countries such as China, India and the US form strategic alliances with oil and gas producers to secure supplies. These alliances are destabilising parts of Africa and Central Asia and helping strengthen autocratic and repressive regimes. History has shown repeatedly that while buying your own dictator may lead to short run stability, it also usually results in medium term instability.

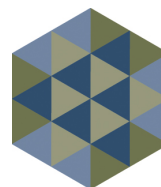
Europe cannot – and should not – compete in this way. Instead it must work to forge agreement to an open market basis for accessing energy supplies. This must provide security for emerging powers such as China and India that they will not be denied energy by military means, and stimulate an environment where producer countries are both open to pressures for political reform and helped to maintain legitimate stability. Such a cooperative approach is in the interest of all energy importers, but needs European leadership to make it a reality.

Europe’s interdependence with China, and other emerging economies, is growing fast. The downside of this interdependence is that it exposes Europe to instability in other economies. In the next two decades Europe will become increasingly reliant on economic and political stability in China, and to a lesser extent India, Brazil and South Africa. This is a change from when Europe was mainly trading and investing with other developed countries.

Though China is becoming increasingly important for the European economy, it remains a developing country with immature and fragile social and political structures which are suffering from immense stress from the pace of economic growth. Many of these stresses stem from natural limits in the supply of water, soil, land and environmental degradation, and result in political and social tensions due to poor governance, corruption and inequality.

RAND Corporation estimates that significant crises in any of these areas are highly likely and could derail Chinese growth for several years. China also faces growing impacts from climate change which are estimated to be highly negative in the next decades.

The EU should invest in helping create the conditions for a stable China, by helping China manage the tensions its unprecedented growth generates; in particular reducing its impact on global climate change and helping improve energy and water security.



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As part of this cooperation, Europe would ask China to play its part in creating robust rules-based systems to manage the global economy and provide the stability needed to ensure sustainable development in other regions. For example, empowering the UN to take a stronger role in conflict prevention and crisis intervention and implementing global rules on corruption and illegal natural resource trade.

Finally, expanding markets and innovation for efficient products helps spread the risks and benefits of technology development, and increases the likelihood that real markets will grow fast and barriers to trade (especially due to national standards) will be minimised.

Europe should take the lead in establishing an international clean transport agreement, firstly with China and California but open to others, with the aim of creating a dynamic single market in highly efficient cars and freight vehicles.

Conclusion: Sustainable Prosperity?

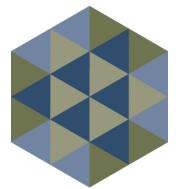
Any set of policies aiming to reverse Europe's crisis of economic confidence needs to focus on how to use Europe's strengths to generate sustainable well-being, not appear to constantly look to other countries and regions for blueprints for higher growth.

Europeans need to be given a compelling offer as citizens on the benefits they will gain by taking greater risks and funding necessary public investment. The challenge of intergenerational equity needs to be faced, not least by avoiding a new generation of wasteful resource intensive investment.

Europe is well positioned to drive action towards a sustainable and innovative economy because of its historical strength in building the political coalitions around the provision of public goods. Europe is also the only area with the political will and power to lead the development of the necessary agreements at the global level.

This is the heart of the political dilemma of Europe. Without economic prosperity and confidence Europe will not be able to take the global leadership needed to build the conditions for sustainable development. If Europe does not play this role the current security and stability of Europe - which many use as an argument against economic reform - will be swamped by larger external forces.

Europe needs to recover its economic confidence and dynamism, not because it is obsessed with becoming wealthier, but because in an interdependent



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world this is necessary to underpin the political action needed to preserve the fundamental security, values and choices of Europeans.³

³ A longer and fully referenced version of the analysis contained in this speech can be found in the paper “Europe in the World: Elements of a New Economic Narrative” at www.e3g.org