JOAQUIN ALMUNIA

Vice President and Commissioner for Competition, European Commission

Thank you very much. This question about the future of the European social model is not new. It has not been provoked by the crisis. This question was in the forefront of many debates before the crisis going back as far as the 1990s and was probably even a matter of debate in the 1980s.

In Europe, especially in some of the northern member states, there are the best examples of the welfare state as a social model and what social policies can deliver to citizens and how to protect and ensure the social rights of citizens. At the same time, we also have within the European Union, particularly after the last enlargement of the union in 2004 and 2007, member states that never had a social model in European terms. We therefore have, on the one hand, the need to strengthen the grounds for building a social model and, on the other hand, the need to reinforce the existing social models in Europe. To do this we badly need growth with higher productivity and lower unemployment. We need the flexibility to adapt social services and policies to the new challenges and the new features of our societies, which have changed dramatically from what they were in the past. We need to tackle the issues of aging, immigration, changes in the family structure and the new inequalities that are growing in our societies.

Many of these decisions should be adopted at the national level. European institutions do not have the capacity to organise adequate strategies for improvements in the education and health sectors. These policies are made and will continue to be made at the national level. However, if our economic and monetary union does not function properly, without a more efficient strategy to ensure sustainable growth in Europe, our member states will not be able to do what is necessary.

One of the very difficult elements of this discussion and one of the links that needs to be improved at the international level and at the EU level is the tax issue. A single member state in the single European market within a global economy with the free movement of capital is not sovereign to decide whatever they like in regard to taxes. At the same time, at the EU level every tax issue requires unanimity, so any single member state has veto power in that regard. We need to improve our tax systems to be consistent with both growth and the need to fund the welfare state, our social policies and the social model. We have a lot of challenges, but again the question is not a new one.

Jim Hoagland, Contributing Editor, *The Washington Post*

Joaquin, let me refer again to the American experience and ask you a leading question on your last point. Where would the leadership come from for tax reform on a European level?

Joaquin Almunia, Vice President and Commission for Competition, European Commission

The European Council, the 28 heads of state and government, and particularly the 18 leaders of the euro area, and the European Parliament need to seriously discuss what needs to be done in a single market, in an economic and monetary union, to get a more efficient tax system that is both consistent with our growth strategies and able to fund our budgetary needs. An ongoing problem we need to recognise, which has been exacerbated by the financial crisis, is that tax levels are not high enough to finance our expenditures and debt levels have therefore increased. In some of our member states the increase in debt is unsustainable. We need to deleverage. It is not politically or socially possible to make very sharp reductions in social welfare spending, which accounts for more than 50% of the total budget in most of our member states. Thus we need a very serious discussion on what taxes can be adopted without raising barriers in our internal market and without harming growth. It is not an easy debate, but it is an essential one.