



Policy recommendations

Growth and Competitiveness in Europe - Mission Possible

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Synopsis

The purpose of this paper is to summarize the policy recommendations which were presented and produced during the discussions at the Vrana Economic council in Sofia on October 25-26th, 2013 and at the consequent fringe debate during the ALDE Congress in Canary Wharf, London on November 28th, 2013. The debates were organized by European Liberal Forum within the scope of the project "Growth and Competitiveness in Europe - Mission Possible" conducted with the Liberal Institute for Political Analyses, the Friedrich Naumann Foundation and the Institute for Liberal Studies.

Introduction

The recent financial crises and economic slowdown have widened the gap between the more and the less competitive economic regions in Europe and have threatened the economic and social convergence and cohesion in EU. The risk of balkanization and widening divergence between debtor and creditor countries persists as European policy making is driven predominantly by short-term national problem-solving rather than long-term common vision for the Union. Economic hardships, the Eurozone debt crisis, EU institutional weaknesses and prevailing national self-interests have allowed the concept of two-speed Europe to become widely acceptable. Policy and decision making as well as the resulting institutional arrangements have been slow and segregated - for the Eurozone members and for all others. A new widening deficit of confidence has emerged between EU member countries, peoples, social groups and members of the society from all walks of life which has fueled a growing Euroscepticism and has deteriorated the European brand.

Liberals in Europe are committed to openly addressing the economic, political, ideological and social issues related to and exposed by the current crisis in Europe in order to advance a Common Reform Agenda for Europe for achieving the growth, competitiveness and economic activity which will make Europe the pivotal global leader in the 21st century.

More Europe, More Union

EU member states should suppress egoistic and narrowly national interests in the name of common European goals and the interests of all European citizens. **For Europe to become again a pivotal global leader solidarity within the Union must prevail when developing and maintaining strong European institutions able of formulating long-term policies and goals for the whole Europe in a dynamic and extensively globalizing world.**

Europe's Macro Crisis

In the aftermath of the global financial crisis from 2008 onwards, the bubbles in Europe burst. This had dramatic consequences, which are still with us today. A number of countries mostly inside, but also outside the Euro zone tumbled into deep macroeconomic adjustment crises. Essentially, these crises involved a massive cut-back of private and/or government spending as well as credit crunches and banking failures, with the particular combination of them depending on national specificities. As a consequence, some countries (e. g., the Baltic states) underwent very sharp, but short crises, which have been mostly completed and overcome by now. Others (notably some Mediterranean rim countries) entered a prolonged period of recession or even depression as well as high unemployment in general and disastrously high youth unemployment in particular. Despite all differences in detail, the crises had a common profile: massive contraction of the non-traded goods sector (mostly local services) and stagnation of the traded-goods sector (mostly manufacturing) due to a lack of competitiveness.

Europe's Current Stance

In the Euro zone, the crisis was badly and indecisively handled: for a long time, the European Central Bank hesitated to act as an outright lender of last resort, and Euro zone leaders took only minor steps towards institutional reforms on the European level. Since the ECB announced the OMT-policy at the crisis peak in 2012, the situation has markedly improved: the balance sheet total of the ECB has come down, measures of the business climate have gone up and the current accounts of the crisis countries have turned into balance, with exports edging up. Also, the German trade surplus within Europe has come down – hardly noticed by the general public. All in all, there is now reason to hope that the worst is over, at least in macroeconomic adjustment terms. On the European macro level, the lesson of the crisis is plain: In the future, the Euro zone needs (i) a preventive coordination of budgetary and fiscal policies, (ii) a stabilization fund that is able to restore market confidence in case of crises, and (iii) a central bank that stands ready to perform the role of a lender of last resort. First major steps in these directions have been taken so that the likelihood of major crises in the future may well be reduced.

The Global Setting

In the last three decades, the global division of labor has dramatically changed – more so than in any period of comparable length in the past. Globalization has brought about (i) a massive expansion of trade in goods and services due to a decline of transport and communication costs as well as trade liberalization, (ii) an enormous increase of global integration of capital markets, and (iii) a sustained catching-up growth of some very large developing countries that turned into newly industrialized countries (NICs), among them China, India, Indonesia and Brazil. If these trends continue (and they are likely to do so!), the major players in the world economy will be outside Europe (and also North America) by the middle of the twenty-first century. Even then, however, Europe will remain an important player and leading region if it finds its appropriate place in this new international division of labor as a producer of high-quality knowledge-intensive goods and services. This is true not only for the rich core economies of north-western Europe, but also for the economies in the Mediterranean South and the post-communist East.

Policy recommendations for the Euro zone:

In the future, the Euro zone needs:

- (i) preventive coordination of budgetary and fiscal policies,
- (i) stabilization fund that is able to restore market confidence in case of crises, and
- (i) central bank that stands ready to perform the role of a lender of last resort.

First major steps in these directions have been taken so that the likelihood of major crises in the future may well be reduced.

At the same time the European Union must finalize some processes which are aimed at having a freer and more efficient market economy and are of great essence for the future of the common market development, such as:

- a) Complete the single market,
- b) Create a common European digital agenda,
- c) Establish a working agreement for a Transatlantic trade zone.

Policy Proposals 1: Establish common European banking union with a single Supervisor and a single Resolution fund

The successful implementation of this policy is of utmost necessity to remove the existing barriers for growth and competitiveness in the Euro zone and Europe as a whole. A single common resolution fund is equally essential for the success of the European Banking Union

which fund should be capitalized by the banks according to their risk factor to prevent the common banking system of the EU to be covered in crisis by the European taxpayers or depositors as it has been in the past and recently.

Policy Proposals 2: Invest Locally, Trade Globally

Conditions for investment to be improved at national level in world-market oriented innovative real sector and business needs.

Meeting the challenges requires, first of all, a drive towards competitiveness on the national level of the different post-crisis countries. There must be specific action plans to improve locational conditions for investment in world-market oriented innovative manufacturing, modern agriculture and related services that focus on genuine business needs (and not on bubble-prone consumption). Accordingly, national policy should invigorate educational institutions notably in the realm of technical skills, vocational qualification and entrepreneurial talent. It should also provide favorable credit conditions for medium-sized companies that make serious attempts to penetrate world markets despite limited size and resources. And it should support nascent R&D-activities, which are still massively underrepresented in the periphery. On the side of Germany and other non-crisis countries in the industrial core of Europe, a general rise of wages due to emerging labor scarcities and stronger focus on public infrastructure investment may provide a non-inflationary demand pull for the periphery countries.

Policy Proposals 3: European Regional Growth Policy

The current European Cohesion Policy to evolve into a European Regional Growth Policy

The European Union may substitute its traditional “cohesion policy” by a “regional growth policy”. All too often, the cohesion funds have been focused on supporting the poorest of the poor regions by providing support for traditional infrastructure projects according to mechanical rules of per-capita income differences. Instead, a genuine regional growth policy should focus more on the potential of backward regions in terms of developing a successful core of innovative industrial activity, which may then have positive spill-over effects on the most backward places. Typically, these potentials are to be found not in the very poorest regions, but in more urban centers of economic activity, which already have a working infrastructure of public research institutions and high-quality education.

Policy Proposals 4: Europe - a global competitor in science and research

The European Union is laying behind the United States in the advancement of technological innovation, research and development as well as in the efficiency of its combined military spending. **The EU should develop new centres of excellence for science, research and development** preferably in the developing and rim regions of Europe able to attract world leading scientific and research personnel, and to concentrate the efforts and funding for science and research of all European nations. Competitions in science and research at national level within the Union must be abandoned and substituted by common European global long-term competitiveness goals and standards with their appropriate time horizons which should be set under common agreement of all European states by properly equipped institutions. Such global aims and competitiveness policies in science, innovation and R&D should employ the resources and efforts of pan-European, governmental, non-governmental and private enterprise across Europe, and should have goals set in relation to the USA, Asia and the other large and compact economic regions of the world. Common European resources should be concentrated and targeted towards the development of innovative research and economic sectors characterized by high added value capacity which will be pulling Europe forward in competition with America and Asia.

Concluding remarks

The current economic crisis is not anymore global, but purely European affair. It is not anymore driven by external but rather than internal for the European Union and the Euro zone factors. The key factor for stagnation and economic slowdown in Europe is its inefficient system of common governance in which national interests prevail. This system of governance is inefficient and not always capable of formulating and taking the right decision at the right time which has ultimately reduced European and national sovereignty. Sovereignty in Europe can only be regained and improved by strengthening the common European institutions and establishing an efficient system in which decisions are taken at the level at which they can be solved felt with.

Only a more integrated Europe can develop our civilizational model and can defend our principles and our values, and can ultimately guarantee and regain sovereignty to all European citizens. The challenges of the 21st century such as dealing with climate change, establishing protection agains the penetration of the European banking system by bad financial products coming from other regions of the world and form their banking systems, or dealing with improper global trade practices requires a more capable and robust United Europe function.

A single currency requires a single treasury and a political union behind it. Europe can either become United Nations of Europe - a loose weak club of countries, or United States of Europe with efficient institutions which is not a uniformed centralized place in Brussels, but in which decisions are taken at the level where they can be implemented democratically and openly. A more United Europe should not be a centralized superstate, but a domain of peace and prosperity where citizens can maintain their identity but can protect their interest. A more United Europe has to be seen as a chance and not as a treat which can be only achieved if the core principles of liberalisms - rule of law, personal initiative and responsibility and freedom of expression are raised and constantly maintained to the highest standard.

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