

# **An Agenda for a Growing Europe**

**Report of an Independent High-Level Study Group**

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# Our mission

- Analyse the consequences of two strategic goals for the current decade:
  - Making a success of the Lisbon Agenda
  - Making a success of enlargement
- Review entire system of EU economic policies
- Propose a **coherent** strategy for faster growth with stability and cohesion in the enlarged EU

# **ASSESSMENT**

# **Institutional achievement : High**

- Single Market - efficiency/growth
- Monetary Union - stability
- EU (and national) budget(s) - cohesion

**BUT MIXED ECONOMIC PERFORMANCE**

# The golden age: 1950-1973

- Magic triangle: growth-stability-cohesion
- Growth: 4.6%
- Cohesion
  - Unemployment: 2%
  - Government spending < 35%
- Stability
  - Inflation: 4%
  - Public deficit: < 2%

# The fall: 1973-1993

- Negative spiral: low growth - costly cohesion and low stability - low growth
- Growth: 2.4%
- Cohesion
  - Unemployment: 8%
  - Government spending: 37% => 51%
- Stability
  - Inflation: 8%
  - Public deficit: 0% => 6%

# Stabilisation: 1993-2000

- Stability

- Inflation: 3%
- Public deficit: 6% => 0%

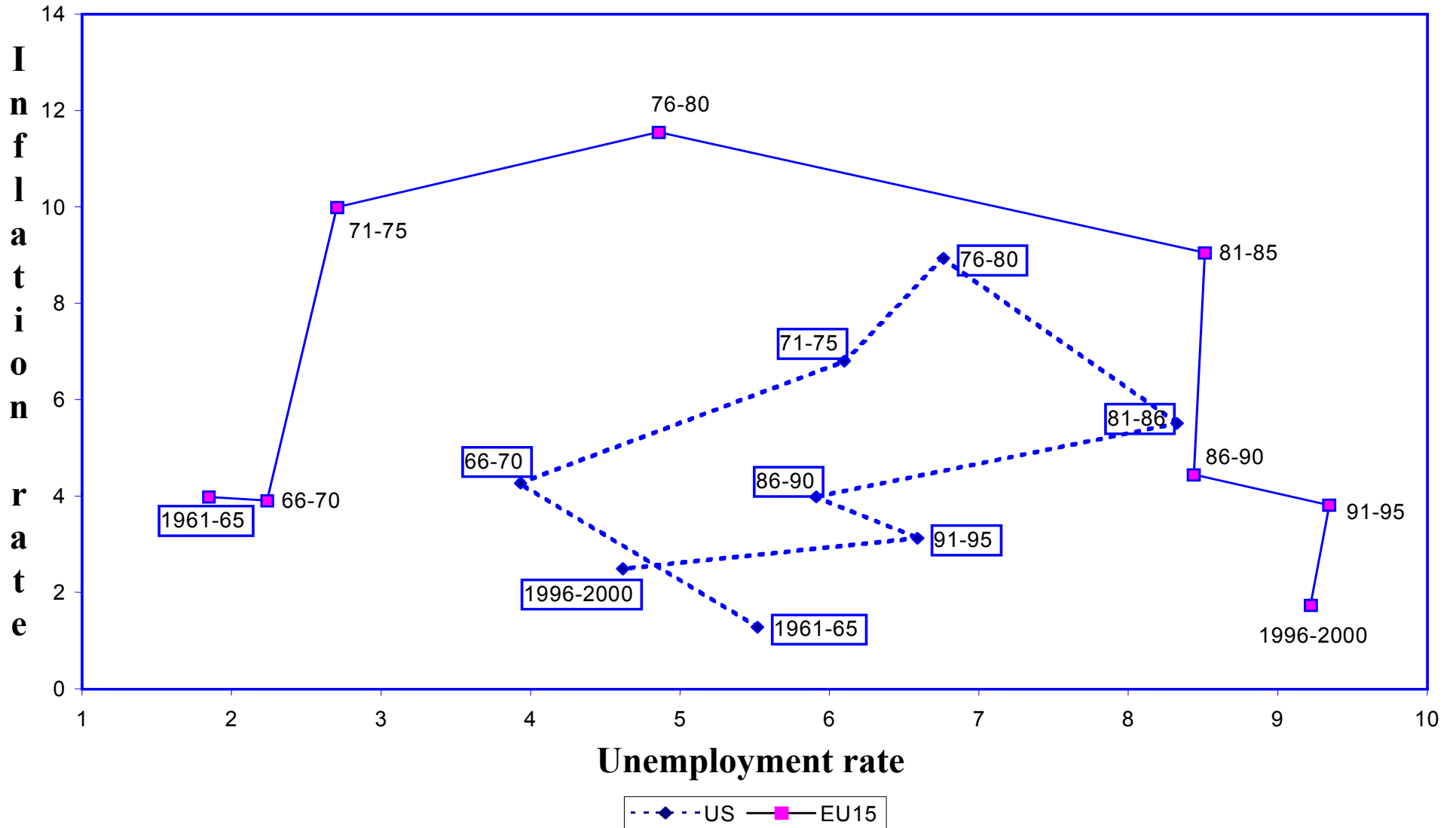
- BUT

- Cohesion

- Unemployment: 9%
- Government spending: 51% => 46%

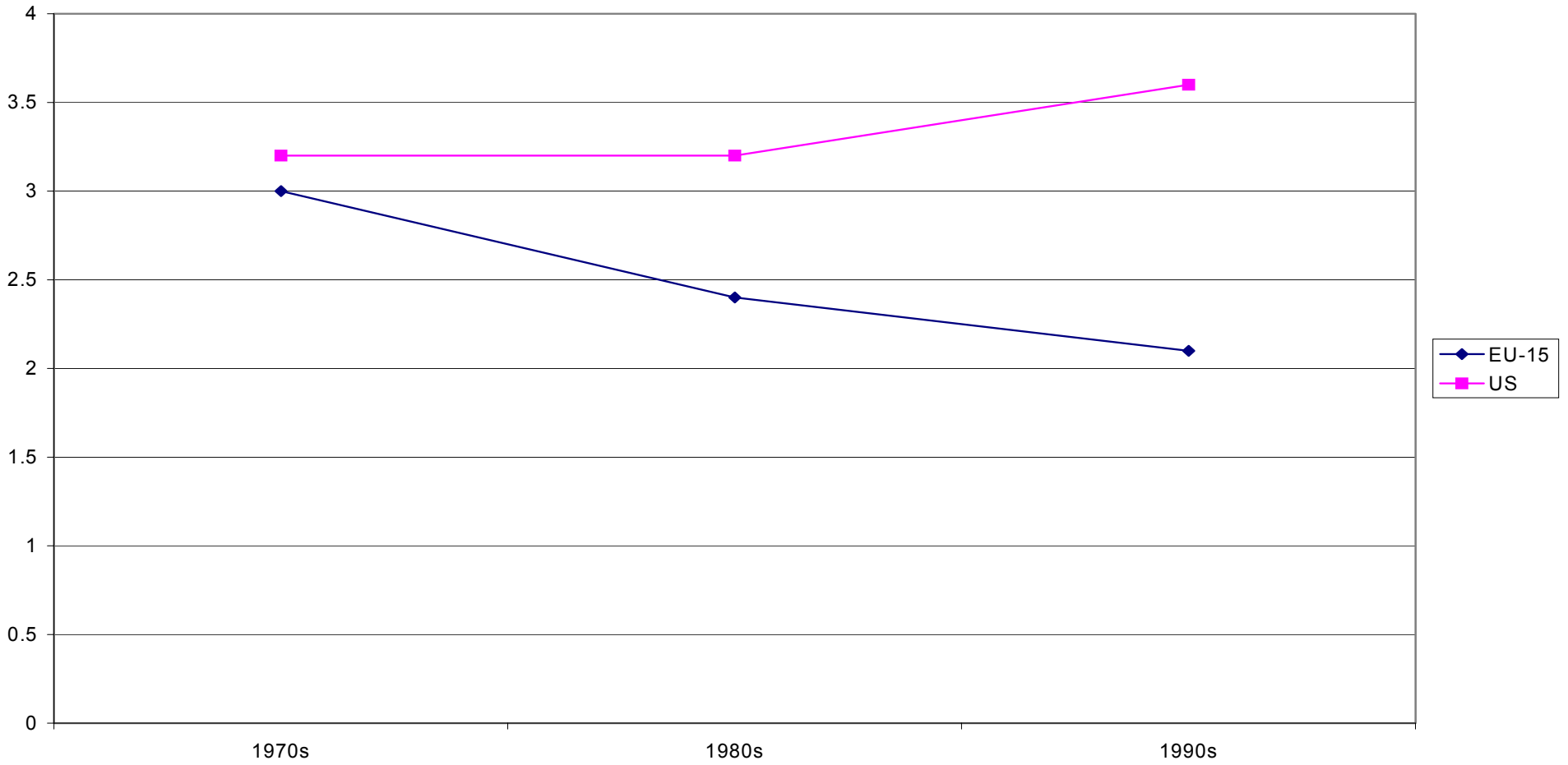
- Growth: 2.4

# Inflation - unemployment



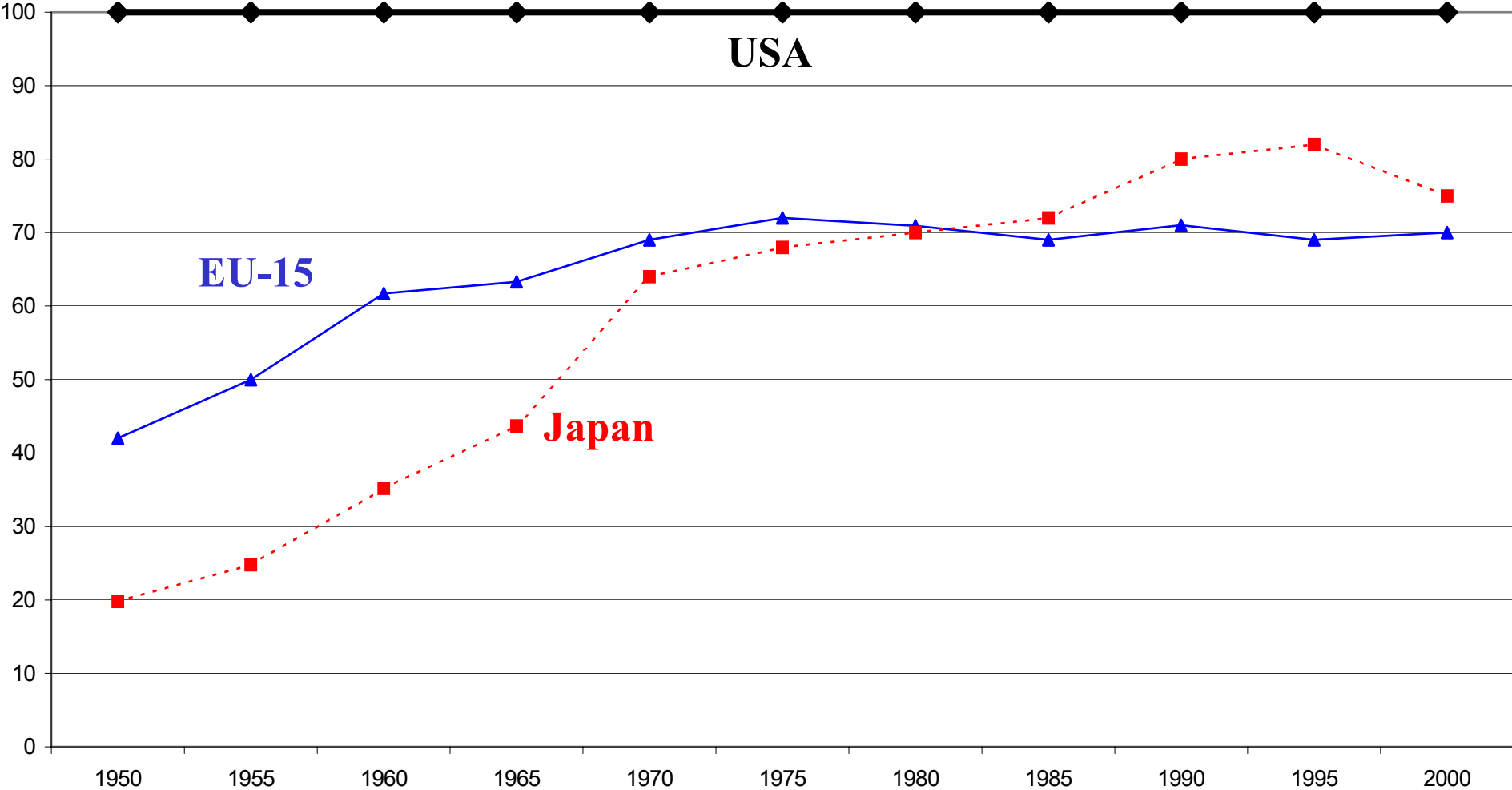
# Growth

GDP growth, EU-15 vs US



# Levels

Per capita GDP at PPP



# Low growth = symptom

- Failure to adapt the economic system based on
  - Assimilation of existing technologies
  - Mass production
  - Large firms with stable markets & labour relations
- Failure to become an innovation-based economy
  - Entry
  - Labour mobility within & across firms
  - Retraining
  - External financing
  - Investment in R&D and higher education

# **CHALLENGES**

- Demographic change
- Technological change
- Globalisation

- The # 1 priority for the EU must be growth
- Growth is the *sine qua non* condition for
  - the sustainability of the social model
  - the success of enlargement

Otherwise, risk for process of European integration

- Increasing growth requires **massive reforms**
  - of economic policies
  - of their delivery modes (governance + budget): more incentives, not only sanctions, i.e. **EU as a facilitator**
- Enlargement is an **opportunity** AND a **challenge** for implementing reforms

# **RECOMMENDATIONS**

# A six-point agenda

- Policies for promoting growth
  1. Make the SM more dynamic
  2. Boost investment in knowledge
  3. Improve the macro policy framework
  4. Redesign policies for convergence & restructuring
- Modes of delivery
  5. Achieve effective economic governance
  6. Refocus the EU budget

# 1. A dynamic Single Market

- Complete the Single Market (including financial services), the # 1 economic pillar
- Regulatory & competition policies for new entry
- Policies to facilitate intra-EU labour mobility
- “Green cards” for 3rd country nationals
- Infrastructure for connecting up markets

## 2. More investment in knowledge

- Higher spending for research [1.9% => ~3%] & higher education [1.4% => ~3%]
- Better spending [dozen centres of excellence]
- Independent European Agency for Science and Research [for academic research, like NSF in US]
- Tax credits for research by small start-ups

# 3. More symmetric macro policy

- Strengthen budgetary surveillance
  - Reinforce the role of the Commission
  - Create independent national Fiscal Auditing Boards
- More effective & flexible implementation of SGP
  - More responsibility to the Commission to interpret rules
  - Higher degree of country differentiation based on debt
  - “Exceptional conditions” for  $> 3\%$ :  $< 0$  rather than  $< -2\%$
- Better policy coordination
  - A consistent fiscal stance for the euro area [2 semesters]
  - Reinforced dialogue euro area Council/ECB/Commission

# 4. Convergence & restructuring

- Convergence policy
  - Target: low-income countries
  - Implementation: also through regions
  - Eligibility criteria: income & performance conditionality
  - Priority action: administrative capacity (earmarking)
  - Other actions: human&physical investment (free allocation)
- Restructuring policy
  - Target: affected individuals in all Member States
  - Implementation: through Member States
  - Eligibility criterion: restructuring need
  - Actions: re-training; re-location; new ventures
  - Some sectoral earmarking (agriculture)

# 5. Better economic governance

- Devolution of some funding & regulatory functions to **independent EU bodies** (academic science & research, anti-trust & mergers)
- Better **decentralisation** of regulatory functions
- Stronger EU enforcement of the **Single Market**
- Incentives for implementing the **Lisbon Agenda**
- More effective EU institutions, incl. **more QMV**

# 6. An EU budget for growth and solidarity

- Reorganise radically economic **expenditures**, focussing on limited areas:
  - Growth fund (for the EU)
  - Convergence fund (for low-income countries)
  - Restructuring fund (for affected individuals)
- **Revenues**: target tax bases with EU dimension
- New **procedures**
  - Responsibility at the level of implementation
  - QMV for financial perspectives

# **Illustration** of a possible EU budget (re-allocating current ~1% of EU GDP for internal economic activities)

• <b>Growth</b>	<b>0.45</b>	
– (R&D)		(0.25)
– (Education & Training)		(0.075)
– (Infrastructure)		(0.125)
• <b>Convergence</b>	<b>0.35</b>	
– (For new Member States)		(0.20)
– (For old Member States)		(0.10)
– (Phasing out for macro-regions)		(0.05)
• <b>Restructuring</b>	<b>0.20</b>	
– (For displaced workers)		(0.05)
– (For agriculture)		(0.05)
– (Phasing out of agricultural expenditure)		(0.10)
• <b>Total</b>	<b>1.00</b>	

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  1. Achieve effective economic governance
  2. Refocus the EU budget