

An Agenda for a Growing Europe

Report of an Independent High-Level Study Group

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Our mission

Analyse the implications of two strategic goals:

- 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

Three pillars in place:

- Single Market
- Monetary Union
- EU Budget

BUT MIXED PERFORMANCE ON OBJECTIVES:

- efficiency/growth
- stability
- cohesion

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

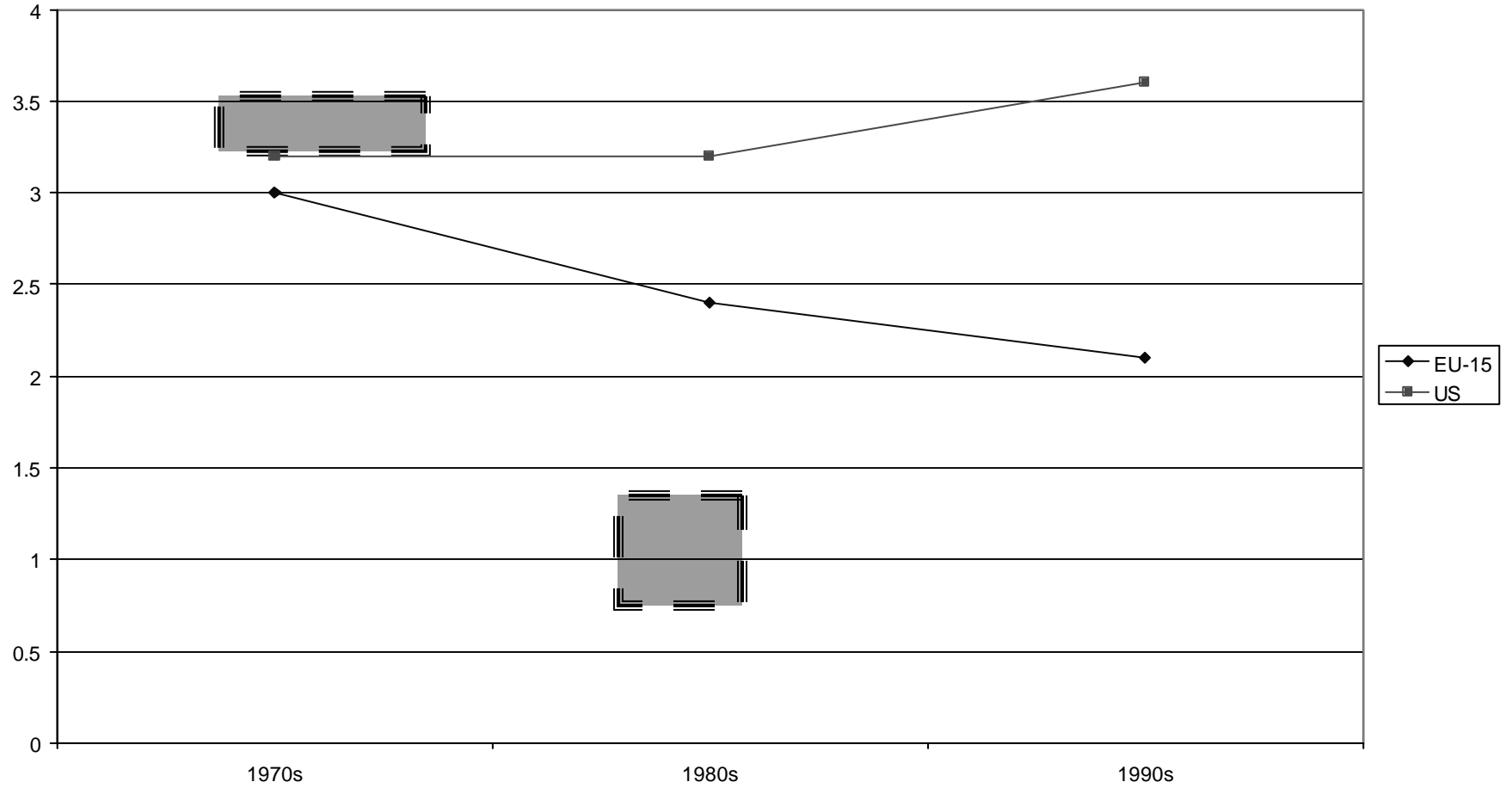
- Stability
 - Inflation: 3%
 - Public deficit: 6% \Rightarrow 0%
- BUT
- Cohesion
 - Unemployment: 9%
 - Government spending: 51% \Rightarrow 46%
- Growth: 2.4%

Instruments and objectives

- Monetary Union - stability - YES
- EU Budget - cohesion – YES
- Single Market – growth? - **NO**

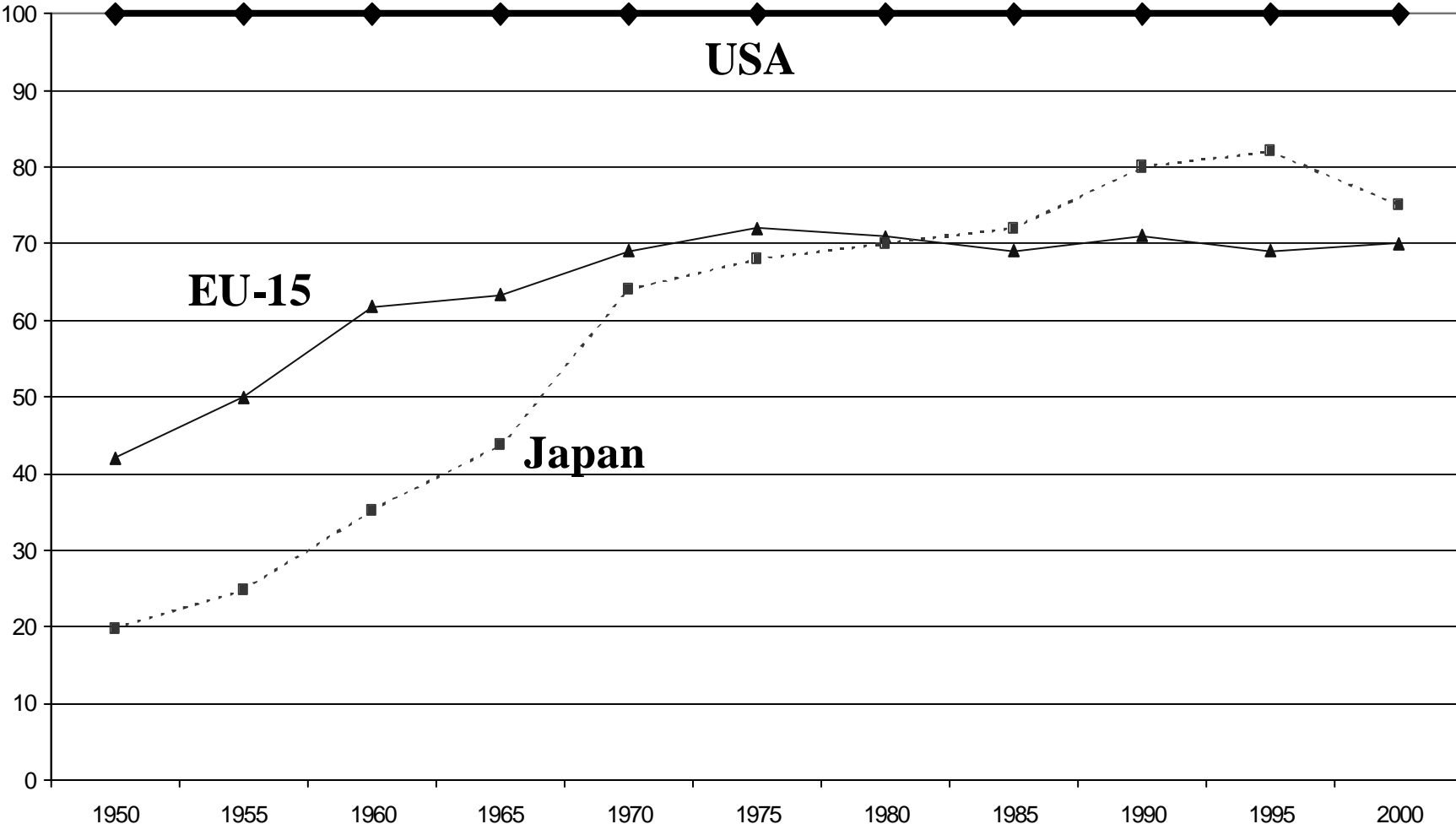
Growth

GDP growth, EU-15 vs US

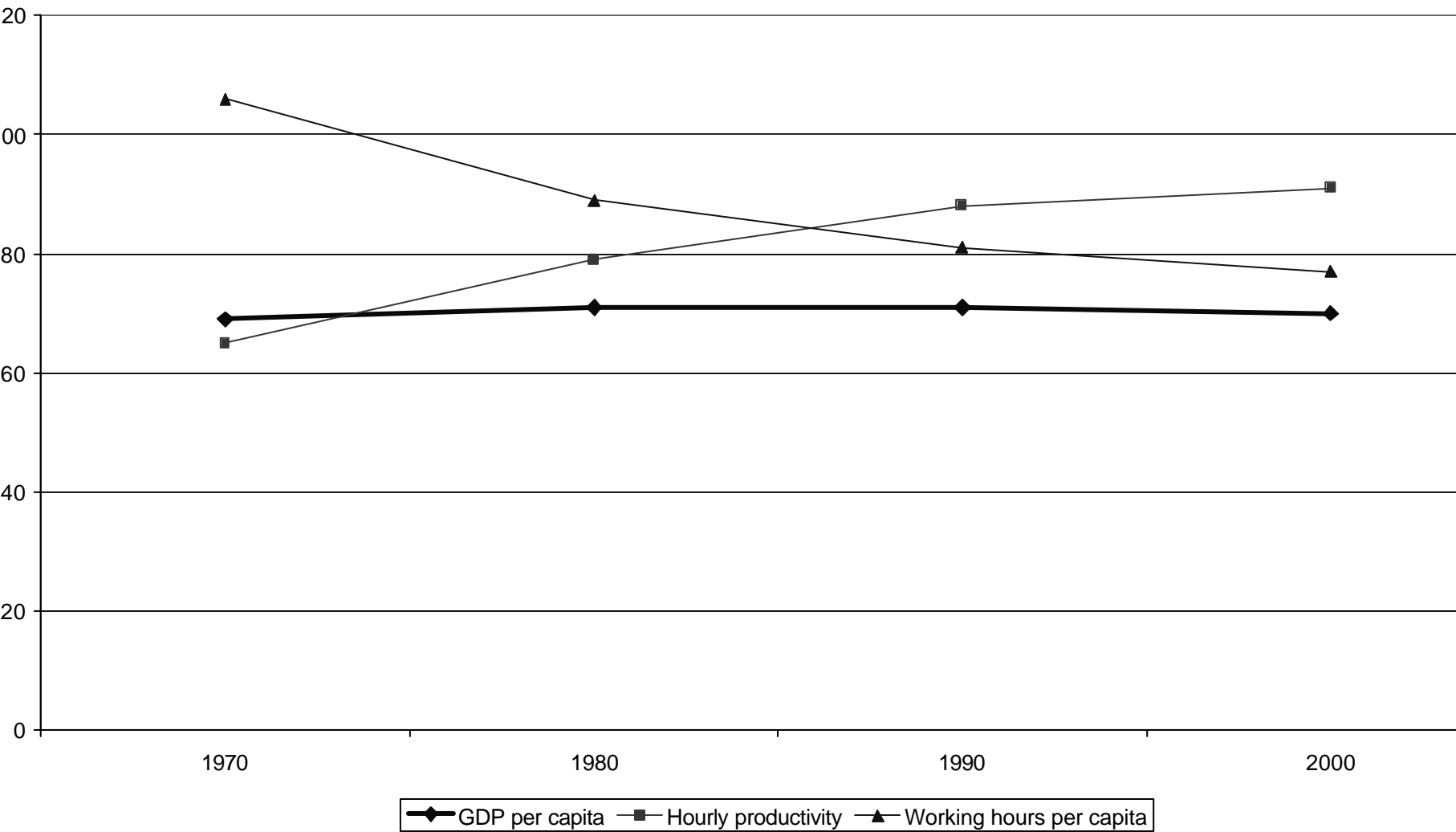


Levels

Per capita GDP at PPP



EU-15: GDP per capita (US=100)



Why did the SMP fail to boost growth?

- Problem of implementation ?
- Problem of complementary policies ?
- Problem of design ?

Why did the SMP fail to boost growth?

- Problem of implementation ?
YES: Services
- Problem of complementary policies ?
YES: Labour & social policies
- Problem of design ?
YES: Change of paradigm

CHALLENGES

Address the challenges

- Demography, technology, globalisation
- More diverse EU

Set the priorities

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

Make the EU system deliver

- Lisbon
 - High ambitions, weak instruments
 - Give up objectives or adapt instruments
- Keys to change
 - Act both at EU and national levels
 - One instrument per objective
 - **EU as a facilitator** (less sticks, more carrots)
 - Use EU budget as leverage

RECOMMENDATIONS

A six-point agenda

1. More 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 policies

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. Cohesion policy - Convergence

Target: low-income countries

Implementation: also through regions

Eligibility criteria: income & performance

Priority action: administrative capacity

Other actions: human & physical investment - free allocation

4. Cohesion policy - Restructuring

Target: affected individuals in all countries

Implementation: through countries and regions

Eligibility criteria: restructuring need

Actions: re-training; re-location; new ventures

Some sectoral earmarking (agriculture)

5. Better economic governance

Clearer system of multi-level governance

- Devolution of functions to independent EU bodies
- Structured decentralisation of regulatory functions
- Single Market: stronger enforcement by Commission

More effective Commission

- Leading Commissioner
- Staff + Council of Economic Advisers

More effective Council

- European Council
- Competitiveness Council
- EPC
 - * Growth/Lisbon committee (EFC – stability)
 - * Analytical committee (macro/micro – stability/growth)

6. Better EU budget

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 – a possible EU budget

(re-allocating current ~1% of GDP for
internal economic activities)

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

Commission vs. our proposals		GNI	GDI
1. Sustainable growth		0.51	0.85
1a. Competitiveness		0.14	0.45
1b. Cohesion		0.37	0.40
2. Natural resources		0.48	0.15
Total internal economic policies	0.99		1.00
3. Citizenship-freedom-security-justice	0.02		
4. The EU as global partner		0.10	
5. Administration	0.03		
Grand Total		1.14	