



The EU Economic Governance at the Crossroads

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APRIL 2010

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The European Union is now updating its new long term strategy for growth and jobs, but without really updating the political and financial instruments to implement it. This will not work. Moreover, we need to square the circle: to recover and to rebalance the public budgets.

The Lisbon strategy adopted in 2000 was the first EU's response to globalization. Its aim was to combine a knowledge-intensive competitiveness with a renewal of the welfare systems. To be precise, it cannot be considered a general failure: a new strategic consensus was built, several reforms were undertaken in the labour markets, pension, education and research systems, 18 million jobs were created over the period, the EU average growth rate was close to 3% before the financial crisis hit. All the same, many other targets fell by the wayside. Europe moved in the right direction, but clearly failed to fulfill its original ambitions. The problem was not the strategic priorities but rather the absence of effective political and financial instruments.

Today the challenges are even greater. International competition is coming from many other global players, ageing trends are deeper, climate change is calling for a new way of life and, last, but not least, we are still digesting an unprecedented financial and economic crisis. In this new context, just growth is not enough. It needs to be shifted to a greener, smarter and more inclusive one. Innovating for sustainable development is now the new competitive advantage Europe should forge.

The strategic priorities should also be more sharply defined than it is usual in the summity language. Innovation should not only be for an elite of companies, regions and people, if we want to make it the central engine to create more and better jobs. Greening will only succeed if the relative price of low-carbon technologies decreases and if there is a real change in the way we consume, produce and move. An inclusive society requires more

jobs, but also less social inequalities to be reduced by active and sustainable welfare systems.

Nevertheless, the credibility of the upcoming EU2020 Strategy will depend decisively on the underpinning economic policies. The financial and economic crisis is not yet over. It was controlled, but not really overcome and even less prevented. A stronger and lasting recovery process will be Europe's central test and it requires new ambition for the coordination of the economic policies, notably in the euro-zone.

Coordination not only for fiscal consolidation, but also for growth. How can Member States make both at the same time? A too early withdrawal of the stimulus packages should be avoided. More priority should be given to investment and to jobs creation, as this can increase public revenues and decrease social expenditure. Member States able to re-direct their budgets for more investment in a greener, smarter and inclusive growth should be rewarded with more time to reduce their public deficits and debts. These initiatives to support investment and growth should be coordinated at European level, if we want to take advantage of the spill-over effects. More European coordination is also needed to shift the tax burden from labour to carbon and financial sources.

Finally, the management of sovereign debt, even if it should remain national responsibility, should benefit from some improvements. A European mechanism against speculative movements should put an end to this painful demonstration of European political impotence in the case of the so-called Greek crisis. Moreover, new instruments will be necessary to finance the kinds of long-term investments that can move us toward a greener, smarter and more inclusive economy: Eurobonds could be used with the specific goal of providing Member States with an additional way to issue debt, guided by a common European framework.

If we do not bring new life into these European internal policies, the implementation of the EU2020 strategy will suffer from a permanent handicap and it is doomed to fail.

Nevertheless, this will not be enough. A new life breath is also crucial in the external policies, if we want the European aspirations and ambitions to thrive in face of global competition. We need greater strategic convergence between the key players at global level towards this shift to a more sustainable development. That is why a new strategic concept is also needed for the external policies of the EU, in order to reshape the way we use trade, cooperation and foreign affairs policies when dealing with our strategic partners, the G-20 and the multilateral institutions. This new concept should focus not only on promoting openness but also on better financial, environmental and social standards.

Will the European leaders rise to this challenge of breathing new life into the European Union?

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