



# An Agenda for a Growing Europe

**Report of an Independent High-Level Study Group  
appointed by the President of the European Commission**

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# PLAN

- **Mission & caveats**
- **Assessment**
- **Challenges**
- **Recommendations**

# 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**

# Caveats



- Focus on the **medium term (2010)**, rather than on short term considerations
- Focus on **economic (& social)** issues
- Focus on **EU and shared policies**, rather than on purely national policies
- Take current **budget ceiling** (with **~1%** for internal economic activities) as given



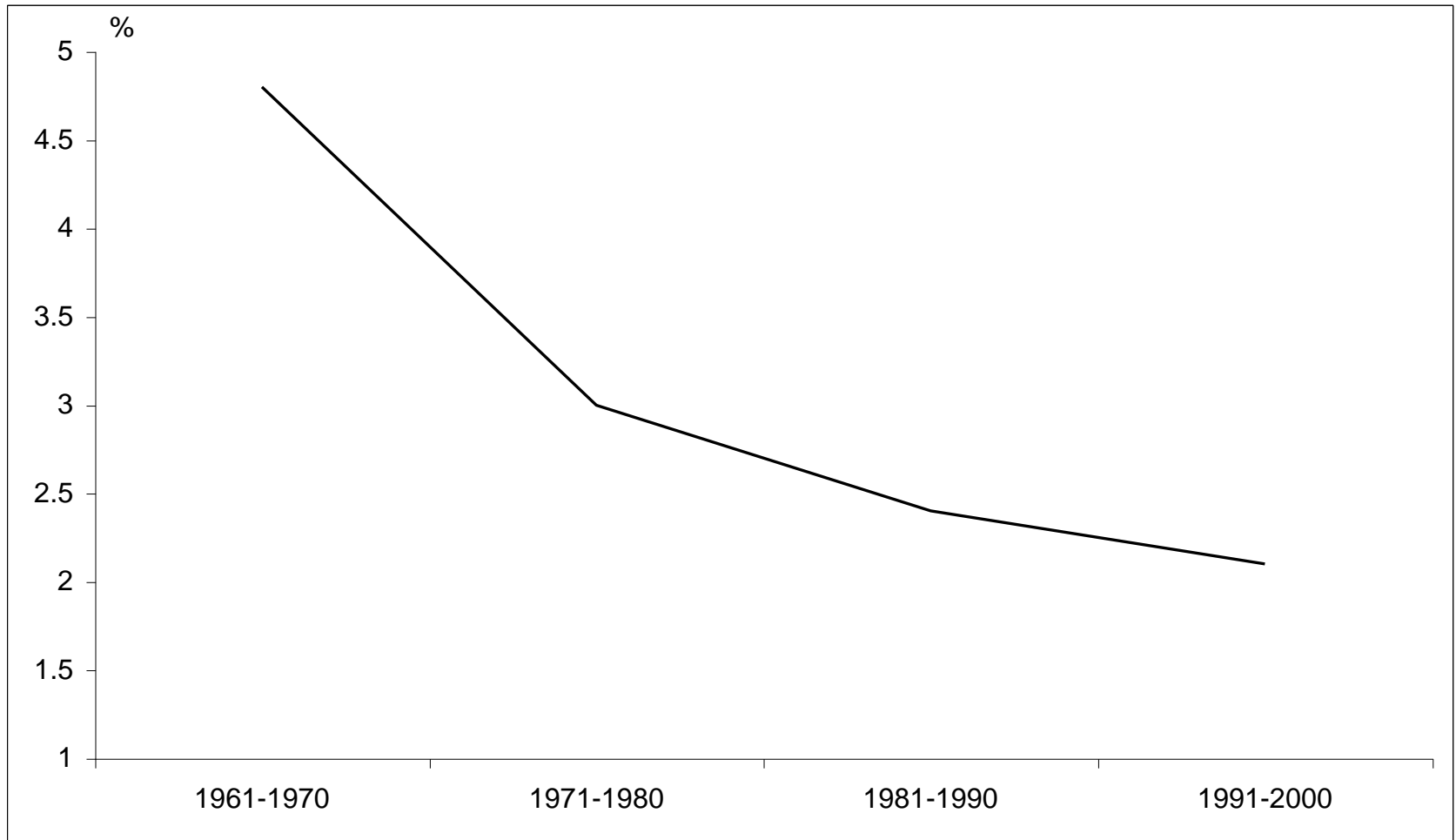
# ASSESSMENT



# Institutional achievement : High

- **Single Market - efficiency/growth**
  - **Monetary Union - stability**
  - **EU (and national) budget(s) - cohesion**
- **BUT MIXED ECONOMIC PERFORMANCE**

## Crecimiento económico en la Unión Europea (1960-2000) (a)

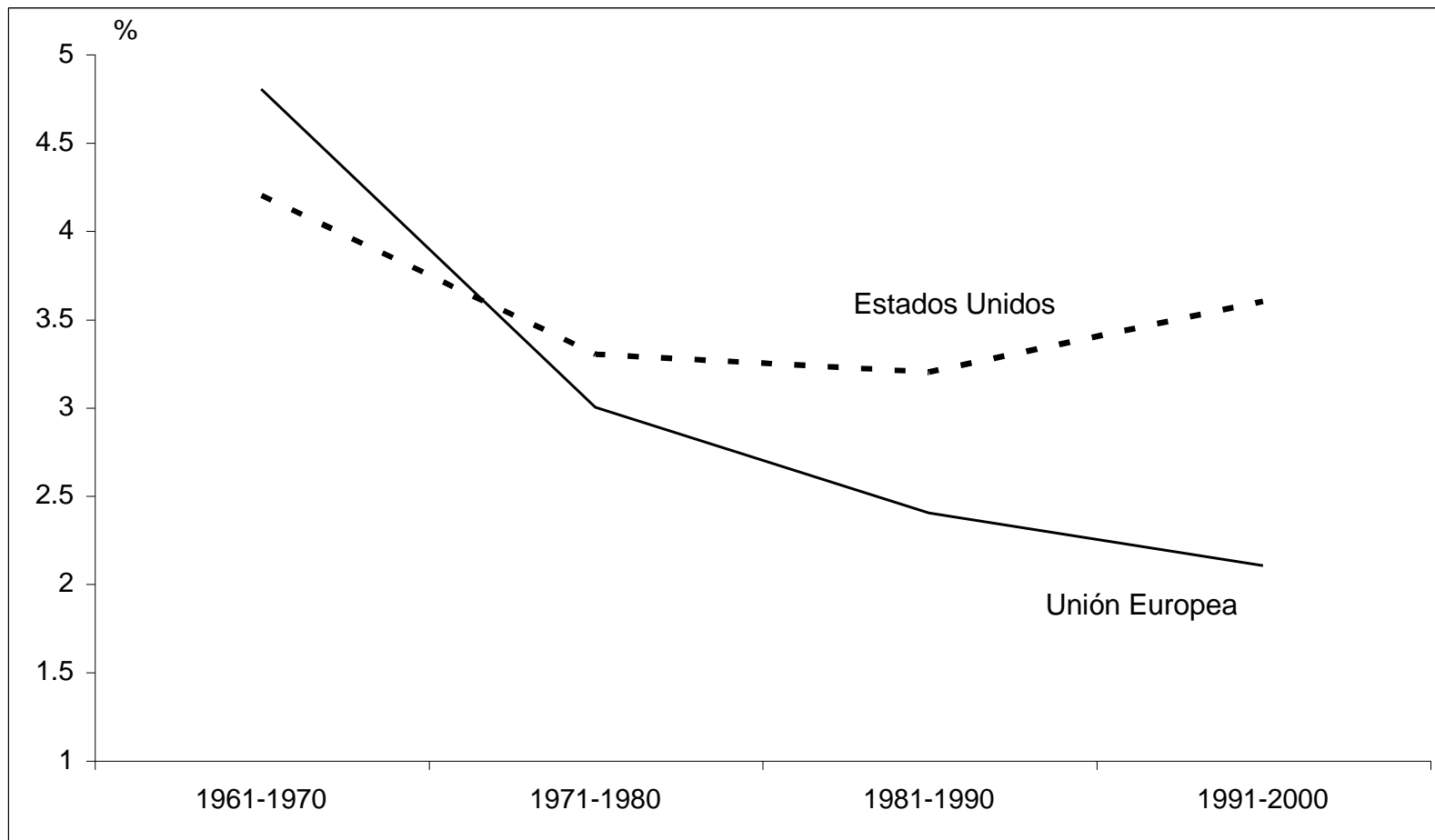


Fuente: Eurostat.

(a) Tasas de crecimiento del PIB en términos reales. Medias de cada década.

La UE se refiere a la constituida por los 15 países actuales.

**Crecimiento económico comparado  
en la Unión Europea y los Estados Unidos (1960-2000) (a)**



Fuente: Eurostat y Bureau of Labour Statistics.

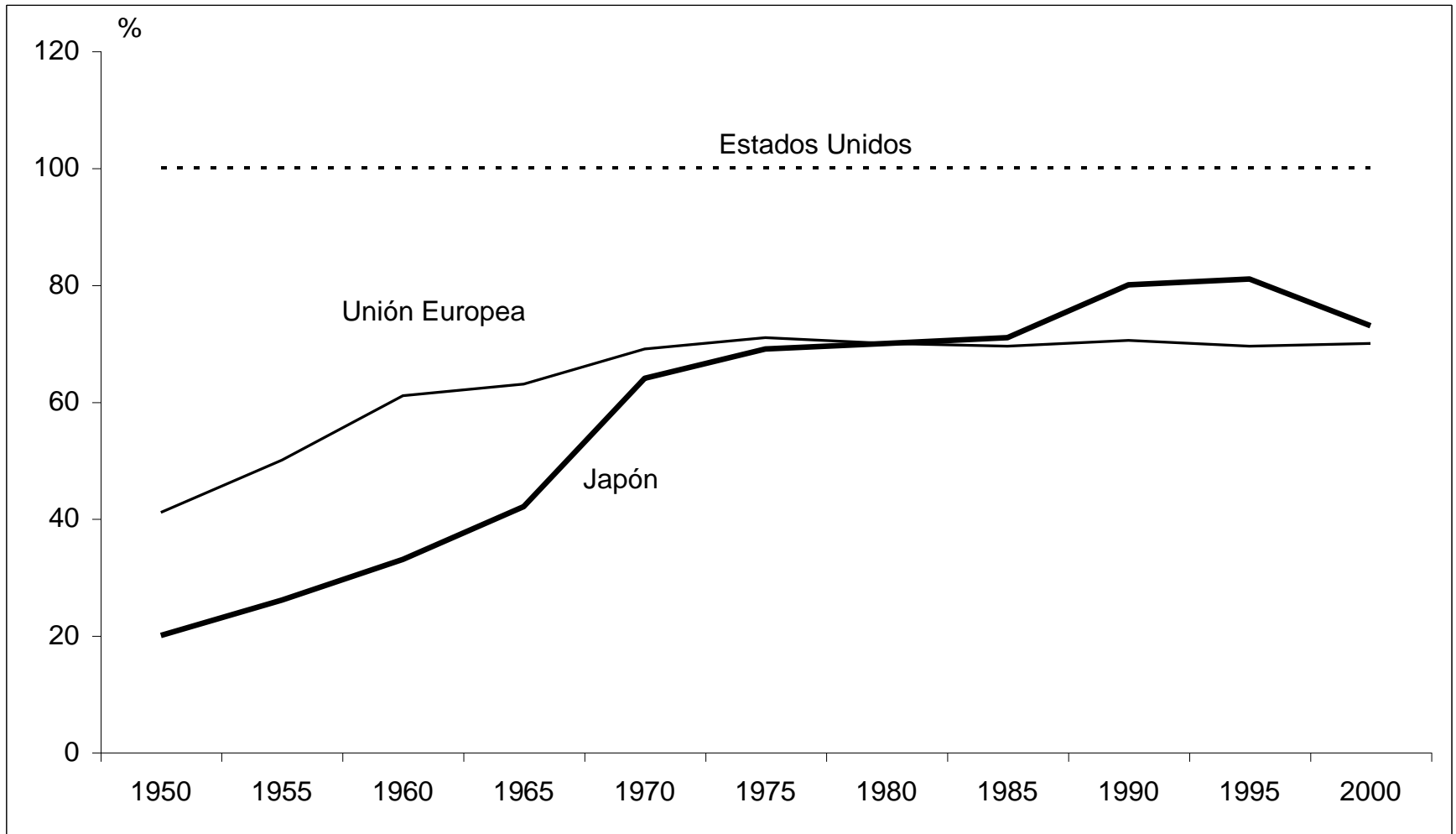
(a) Tasas de crecimiento del PIB en términos reales. Medias de cada década.

La UE se refiere a la constituida por los 15 países actuales.





### PIB per cápita en PPCs (Estados Unidos = 100)



Fuente: Eurostat, Bureau of Economic Analysis.



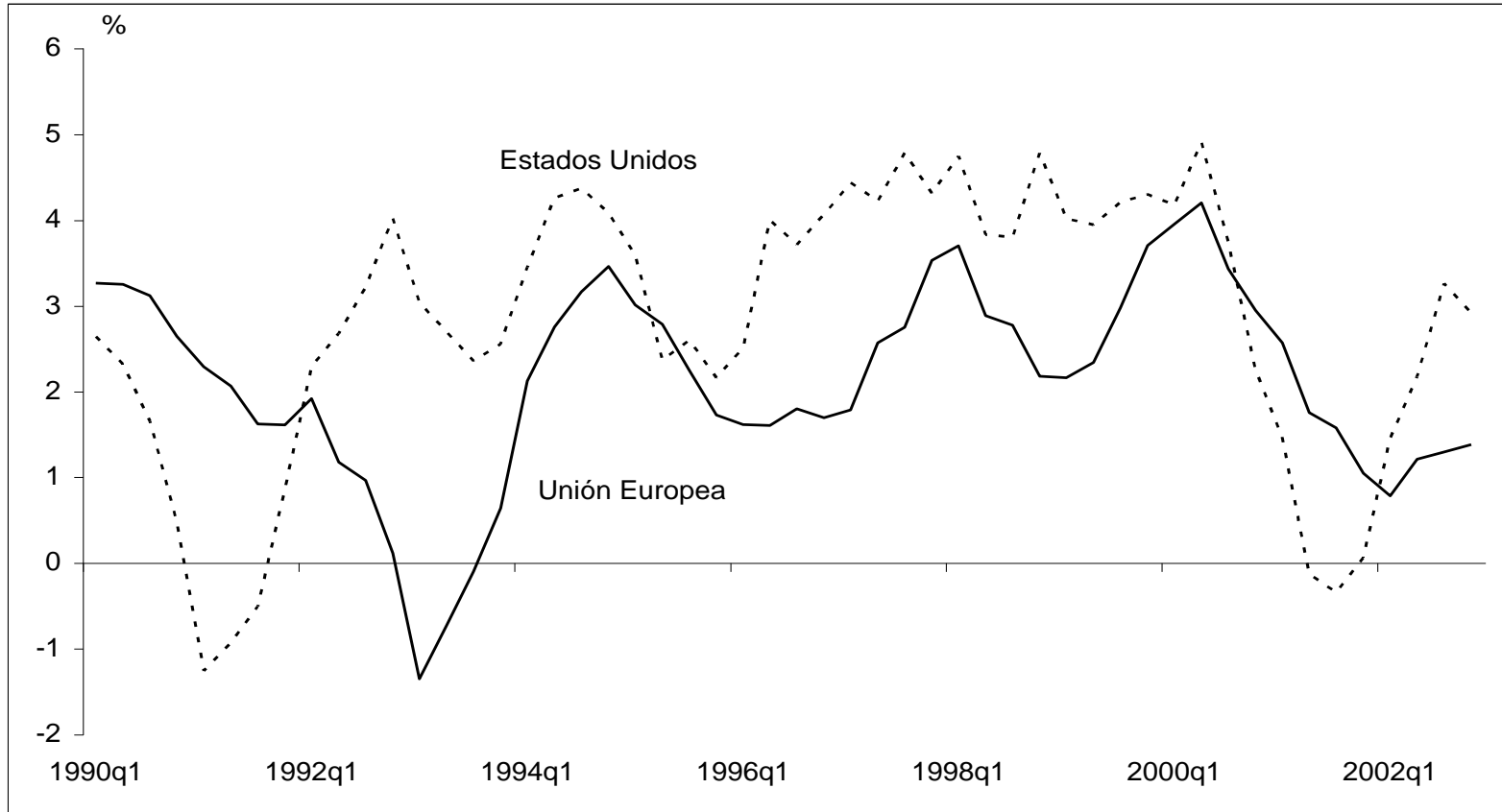
## Estabilidad macroeconómica en la UE y los Estados Unidos

	1961-1970	1971-1980	1981-1990	1991-2000
<i>Unión Europea</i>				
Inflación	3.9	10.8	6.7	2.7
Intensidad de las fluctuaciones cíclicas	0.9	1.7	1.2	1.0
<i>Estados Unidos</i>				
Inflación	2.8	7.9	4.7	2.8
Intensidad de las fluctuaciones cíclicas	1.8	2.0	2.4	1.5
<i>Diferencia UE-EE.UU.</i>				
Inflación	1.1	2.9	2.0	-0.1
Intensidad de las fluctuaciones cíclicas	-0.9	-0.3	-1.2	-0.5

Fuente: Comisión Europea.



### Crecimiento económico en la Unión Europea y Estados Unidos (1990-2002) (a)

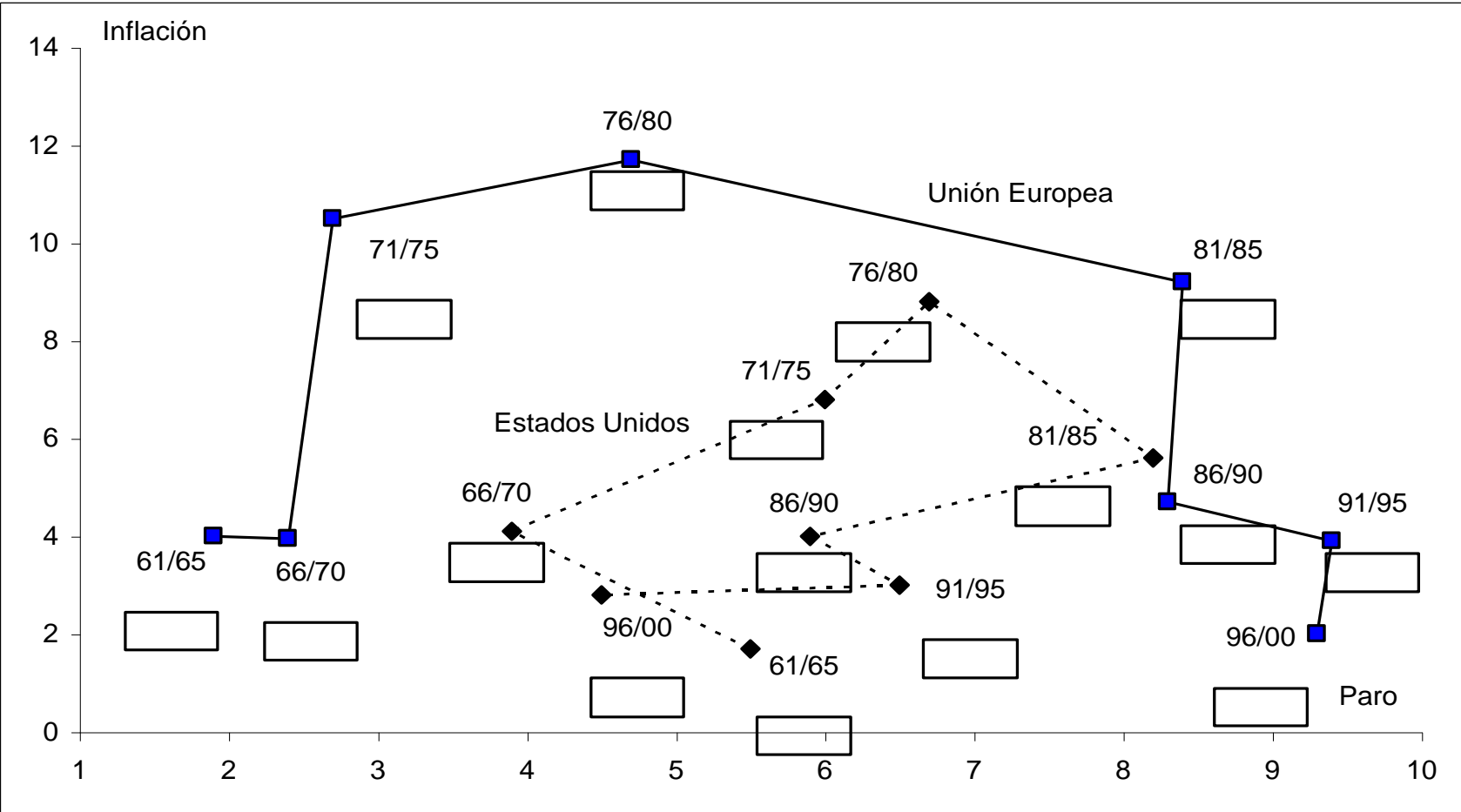


Fuente: Eurostat, Bureau of Economic Analysis.

(a) Tasas de crecimiento interanuales del PIB en términos reales



### EE.UU. y Unión Europea: relación entre la inflación y el desempleo



Fuente: Eurostat, Bureau of Economic Analysis.



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### Distribución de la renta e índices de desigualdad

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#### **1.- Desigualdad total**

	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>
Cociente renta 5% más rico-20% más pobre	2,01	1,73	1,77	1,73	1,86
Coeficiente de Gini	0,320	0,299	0,301	0,303	0,309

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#### **2.- Índices de Theil de desigualdad "dentro de" y "entre" países de la UE 15**

	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>
"Dentro de" los países	0,152	0,130	0,142	0,142	0,152
"Entre" países	0,017	0,016	0,012	0,008	0,008
Total	0,169	0,146	0,154	0,150	0,160

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Fuente: Morrison y Murtin (2003)

## Crecimiento, productividad y empleo en la UE y los Estados Unidos

	PIB		Empleo		Productividad	
	UE	Estados Unidos	UE	Estados Unidos	UE	Estados Unidos
1971-1980	3.0	3.3	-0.5	1.8	3.5	1.4
1981-1990	2.4	3.2	0.0	1.7	2.4	1.4
1991-2000	2.1	3.6	0.3	1.9	1.8	1.7
1991-1995	1.5	3.1	-0.9	1.8	2.4	1.3
1996-2000	2.6	4.1	1.2	2.0	1.4	2.0

Fuente: Comisión Europea y Bureau of Labour Statistics.

Nota: la productividad es por hora trabajada y el empleo se mide en términos de horas trabajadas.

La UE corresponde a la constituida por los 15 países actuales.

# 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





- **EU enlargement**
- **Demographic change**
- **Technological change**
- **Globalisation**



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**Países candidatos: indicadores básicos (a)**

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	PIB (% PIB UE)	PIB per cápita (b) (% media UE)	Población (millones)	Tasa de paro (% pobl. activa)
Chipre	0.11	74	0.6	3.9
Eslovaquia	0.25	47	5.4	19.4
Eslovenia	0.23	70	2.0	5.7
Estonia	0.07	40	1.4	12.4
Hungría	0.65	53	10.0	5.7
Letonia	0.15	33	2.4	13.1
Lituania	0.09	38	3.7	16.5
Malta	0.04	58	0.4	6.5
Polonia	2.23	40	38.6	18.4
República Checa	0.71	59	10.3	8.0
<b>Países en adhesión</b>	<b>4.57</b>	<b>47</b>	<b>74.8</b>	<b>14.5</b>
Bulgaria	0.17	24	8.5	19.7
Rumanía	0.50	24	22.4	6.6
<b>Países candidatos</b>	<b>5.25</b>	<b>45</b>	<b>105.6</b>	<b>13.1</b>
<b>UE</b>	<b>100</b>	<b>100</b>	<b>377.5</b>	<b>7.2</b>

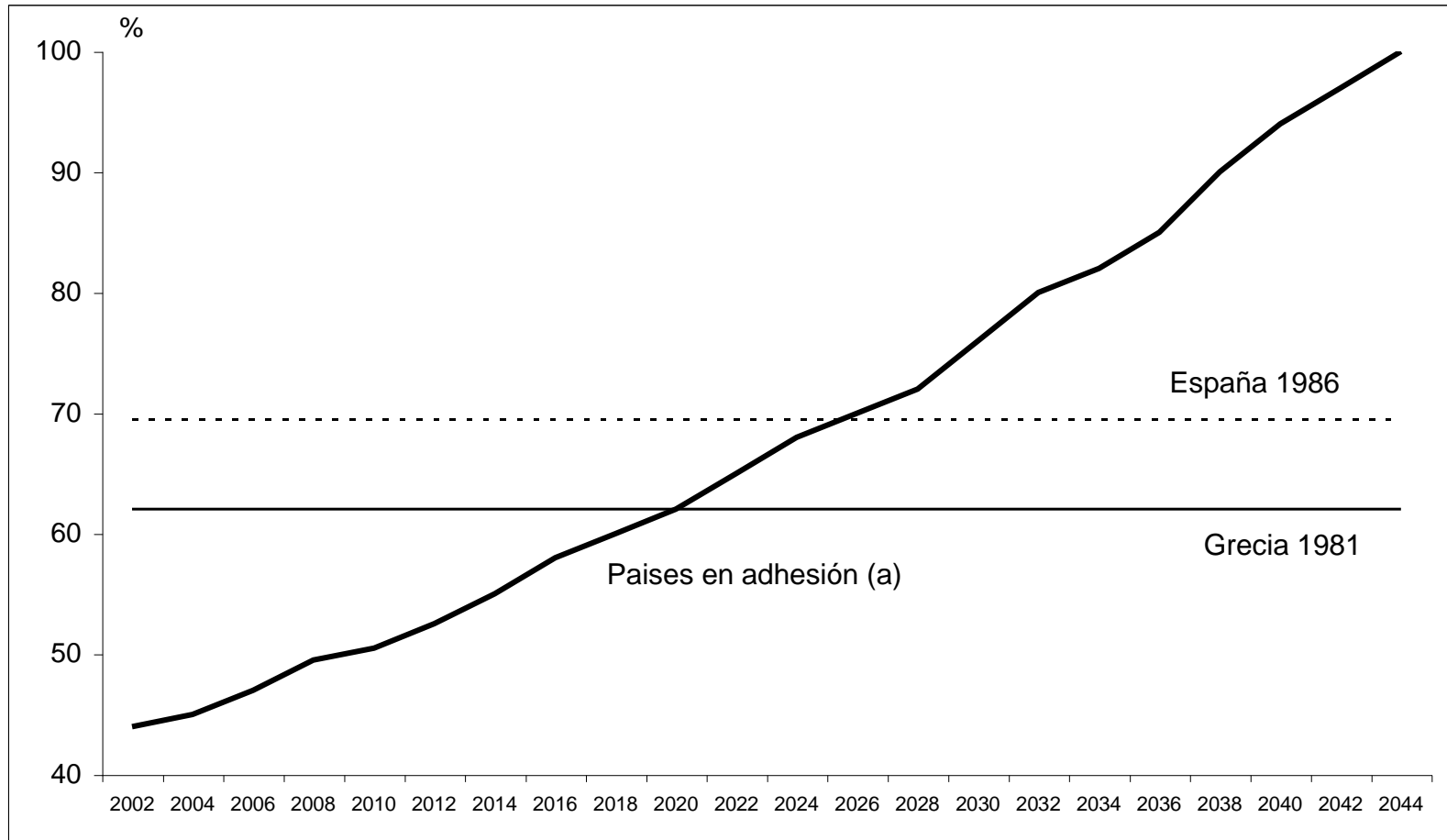
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Fuente: Eurostat y Banco de España.

(a) Datos correspondientes a 2001.

(b) Medida en paridad del poder de compra.

## PIB per cápita en PPCs (% media UE)



Fuente: Eurostat.

(a) Un ejemplo: si el PIB de la UE creciera al 2% anual y el de los Países de Adhesión al 4%, tardarían en promedio en converger unos 40 años a la media UE



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**Desigualdad "dentro de" y "entre" países de la UE antes y después de la ampliación (índices de Theil)**

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	<u>"Dentro de"</u>	<u>"Entre"</u>	<u>Total</u>
UE - 15	0,152	0,008	0,160
UE - 27	0,156	0,064	0,220

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Fuente: Morrison y Murtin (2003)

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- **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**

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





# **Four sets of policies**

# 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*
  - *Reinforced dialogue euro area Council/ECB/Commission*

## 4. Convergence & restructuring



### ■ Convergence policy

- *Target: low-income countries rather than regions*
- *Implementation: also through regions*
- *Eligibility criteria: income & performance conditionality*
- *Priority action: administrative capacity (earmarking)*
- *Other actions: human&physical investment*

### ■ 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)*



## **Two** modes of delivery

# 1. 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**

## 2. 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>	0.45	
(R&D)		(0.25)
(Education & Training)		(0.075)
(Infrastructure)		(0.125)
<b>Convergence</b>	0.35	
(For new Member States)		(0.20)
(For old Member States)		(0.10)
(Phasing out for macro-regions)		(0.05)
<b>Restructuring</b>	0.20	
(For displaced workers)		(0.05)
(For agriculture)		(0.05)
(Phasing out of agricultural expenditure)		(0.10)
<b>Total</b>	1.00	

# A six-point agenda



- **Policies for promoting growth**

1. Make the SM more dynamic
2. Boost investment in knowledge
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- **Modes of delivery**

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