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Europe’s Unfinished Business

Article by László Andor
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The European Union was created as a common market to strengthen European business. Yet in 2019, the foundations of the economic house are shaky, firms struggle in face of international competition, and inequality is widespread. Rather than seeking cosmetic change, in its next mandate the European Union should seize the chance to shape a new model for how business is done, marrying innovation with social justice and sustainability. As part of the *Green European Journal*’s series on where Europe finds itself today, former EU Commissioner László Andor explores the steps the EU needs to pursue, from R&D and regional policy to banking union and fiscal transfers. He outlines a vision for shared prosperity in Europe, arguing that the time is now before the next crisis hits.

The US President Calvin Coolidge once famously stated that “the business of America is business.” Some people in Europe believe that the European Union should abide by the same principle and limit itself to encouraging commerce between the nations of the continent. But in order to live up to its values and the expectations of the citizens, the EU needs improve and protect people’s prosperity and wellbeing too.

The question in Europe, and a key battle for the next term of the EU institutions, is not simply whether business can be supplemented with social policy. The real question is how Europe does business. The Great Recession that began 10 years ago exposed major weaknesses in the European business model. Since then, its reform has barely started. Global developments like technological competition and climate change are forcing European countries to update their business models, and the EU needs to define a common strategic direction.

The British vote to leave revived the spectre of disintegration that has haunted the European Union in recent years. Lessons must be learned on both sides of the Channel, including in terms of political economy. Enemies of European integration will always exist, but they will only have broad appeal if the EU fails to deliver and share economic growth. Creating common prosperity should therefore be at the centre of Brussels debates on the EU’s current predicament.

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The real lessons of Brexit support the progressive arguments for tackling imbalances and inequality collectively in the EU, for stronger common instruments to spread wealth across society and between regions. The geographical imbalances behind the Brexit vote point to the need for stronger EU social and regional policies; these areas are too important to leave to member states entirely. Cities and regions should be empowered to be more in touch with the EU level, as part of broader, complex development strategies.

The past decade of crises produced an avalanche of literature about how to reform the EU. One important direction is the development of a knowledge-based economy, an aim the EU already defined 20 years ago as part of the Lisbon strategy. Mariana Mazzucato, who has been helping to reshape EU innovation policy, argues that Europe can attain its goal for a competitive, knowledge and innovation-based economy if it takes advantage of economies of scale at EU level and applies a mission-oriented approach. What does that mean? Europe should set itself tasks, such as 100 carbon-neutral cities by 2030, a plastic free ocean, or decreasing the burden of dementia, and then channel resources into achieving them. What is at stake is Europe's position *vis-à-vis* the US and China in the global economy. For older students of the EU, this means a shift of focus from negative integration (the elimination of barriers) to positive integration (new initiatives for cooperation), especially in an area critical for economic progress. More EU funding for research and innovation will be an essential component of a new business model for Europe. It would move the EU closer to Mazzucato's 'entrepreneurial state' model, as long as it makes sure to draw talent from all corners of the EU as well as sharing the benefits fairly. The policy chain of investment in human capital, financing research and innovation, and balanced growth have to be worked out together, not as separate issues.

Another prominent contributor to the European debate, Joseph Stiglitz, published a manifesto under the title *Rewriting the Rules*. It starts with, but goes well beyond, the usual critique of austerity. Stiglitz advocates a return to full employment policies, and for that a reform of the European Central Bank as well. Employment has to be prioritised within monetary policy, and collective bargaining has to be strengthened to drive wage growth. Fairer taxation is crucial to promote both social justice and growth, while the welfare states of EU member states need to be upgraded to tackle poverty and inequality. Stiglitz welcomes the enhanced role of the European Investment Bank and calls for further reinforcement and a greater engagement in public investment. Stiglitz has also been a leading advocate for Eurozone reform.

If and when it can be relaunched, the most urgent task will be completing banking union. Initiated in 2012, banking union aims to prevent another Great Financial Crisis and, when crises do happen, make sure that governments do not foot the bill. Deposit insurance, the much-needed third pillar of banking union, is necessary to restore confidence in the euro and protect citizens. The next step would be a shared fund for economic stability that would automatically provide stabilising funds to European economies when they ran into difficulty and help to keep them all on the same track. Such measures do not require a federal leap or treaty change. Political leaders must convince the public that the Eurozone must be repaired to prepare it for the next downturn.

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In some cases, the EU has identified a problem correctly but still struggled to find a solution. Current account surpluses run in one part of the Eurozone can destabilise others. The EU has identified them as potentially troublesome since 2010 through is 'macroeconomic imbalance procedure', but sanctions or incentives were not attached. One option would be a small levy on current account surpluses. To avoid paying this levy, surplus countries such as Germany or the Netherlands would probably prefer to invest or raise wages, and thus boosting aggregate demand while helping themselves as well as the whole community. The new EU budget for 2021-27 is an opportunity to create such an incentive.

For the EU to be stable socially and politically, and to be sustainable in the long term, all its countries need to be on the same path to prosperity. Instead, the flaws of the single currency have led to economic success in some countries and hardship in others. This is the most significant source of instability in today's EU. If there is another global financial crisis, Europe cannot for a second time emerge from the recession three years later than the United States, and for that Eurozone reform is essential. Without its completion, it is hard to see how the single currency can become something that unites rather than divides, and how the politically divisive gap between EU and Eurozone can be closed.

To avert an eventual break-up, economic convergence in Europe has to be restored. Fixing the euro, plus stronger cohesion and innovation policies, are the key elements to consider. Together they make up a strategy that can bring greater prosperity and create a fair and sustainable society for all Europeans. How exactly the political process can lead there, of course, is another question.

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