

Débat 3

Restoring European Competitiveness

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Over the past three years the European Union has concentrated largely on debt, deficit and financial stability. This was necessary to stabilize the markets and lay the ground for a sound recovery. Now that financial tensions are easing down and confidence is returning, there is an urgent need to shift focus on the real economy and Europe's growth prospects. Debt-based growth proved to be very short-sighted and future growth will come from a more competitive Europe. We can address competitiveness at a national level but there also needs to be an EU dimension. Europe can act as a multiplier and supporter of domestic efforts and we have a lot to gain from strong increasing returns to scale from actions at EU level.

The single market is our best common asset to restore growth and reabsorb internal imbalances. Indeed, with its 500 million consumers, the EU remains the largest destination for goods and services worldwide. Key economic sectors, such as financial services, benefit greatly from the single market's common rules. Without the single market, all member states would be less attractive to foreign investors, who, once established in one member state, can move freely around the EU. The single market also provides a platform and leverage to export goods and services to international markets. So we must make the single market more open, internally and externally. However, so far progress towards the abolition of remaining barriers has been very slow and signs of resurgent economic nationalism are spreading throughout Europe. The solution cannot be a simple discussion on new directives or regulations. The only way is to agree on a new political approach. So far we have liberalized national markets, in the assumption that private companies would merge and integrate across borders. The result is a patchwork of interlocking national markets, rather than a true single market. We lack industries of a true continental scale. To give an example, in the telecoms sector, the EU has roughly 100 operators; the US has just five, China has a mere three. Only if we give up our national reflexes, we will be able to move the Single Market to its next stage of development.

In what follows I give the broad headlines of the main areas where the EU and its member states can act in order to deepen the single market and restore European competitiveness in the next years.

Cutting red tape is probably among the most important and cost-free reform to restore European competitiveness. It is a duty for each member state to create a better environment for its companies to thrive. This means a more predictable tax environment, less paperwork and speedier enforcement of contract, through a more efficient civil justice. But much can be done also at European level to improve subsidiarity and reduce bureaucratic burden on firms.

A second important tool to restore European competitiveness is to update EU competition policies. Ensuring a fair competition is key to foster innovation and fight rents. But we also have to take into account that in the 21st century European companies are not constrained anymore within the single market when fighting concentration was a priority to avoid monopolistic positions. EU companies today compete in the world market with American or Asian giants. To stay competitive on the international stage we need "European giants". Otherwise, by fighting against EU monopolies, we risk falling prey to external monopolies.

Looking at production factors, energy is probably one the biggest concern for European companies and also a geopolitical liability for the EU. Building a real energy market cannot be further postponed. The EU needs first to secure energy supply and secondly to reduce its cost to be able to compete on the same ground with our international trade partners, in particular the US which with the shale gas

revolution (and its protectionist policies in this respect) is enjoying very low energy prices. To secure energy for all member states we need to speed up the diversification of energy supply and develop the necessary interconnections (national borders are still too thick). To cut energy costs, we can reduce demand by improving efficiency and stimulating R&D, but we can also weight on our collective bargaining power. Negotiating a national level is inefficient both from an economic side and also from a political side.

Investing in our future means foremost investing in our youth. Almost 16 million Europeans below the age of 30 are neither in employment, nor in education or training. The consequences of this cannot be ignored. Unemployment in the early stages of a career leaves permanent scars on individual future opportunities and earnings but also poses a threat to growth potential. At the same time, European firms face significant skill shortages. Investments in education, training and mobility are therefore a priority to fight unemployment and provide our companies the workforce they need. Erasmus has been the most successful EU program: not only it has helped to increase the knowledge of other European languages but it has also provided the basis of a real European citizenship. We need to reinvest in the Erasmus program, including for workers, and extend it also to high-school students. Moreover we need to implement by 2014 (as already decided) a European Research Area. This means to have more effective national research systems that define shared agenda and cooperate to improve output quality. Such fluid exchange of skills should be accompanied by an optimal circulation of scientific knowledge.

And also, migration policies cannot be disconnected from our growth strategies and treated just a security issue. With an increasingly old and declining population the European economy are destined to stagnation. Europe needs an efficient and well-managed migration and asylum policy to optimize the benefits of legal migration and offering protection to those in need while tackling irregular migration resolutely.

Access to finance is another key factor for European competitiveness. Companies face still very different prospects depending on where they can access funding. There are no reasons why loans should cost double in Bolzano than in Innsbruck. This undermines competition and depresses the economy. If we do not solve this unjustified divergence, starting by a fully-fledged banking union, the reform efforts will be quickly eaten up by the lack of new investments. To foster private investment, the EU and its member states should work to mobilize long-term investments for the real economy.

EU's exports and trade surplus have played an important role in mitigating the impact of the crisis. Trade is one of the strongest tools to boost growth at our disposal and it is not a zero-sum game. Mutually satisfactory free-trade agreements play an important role to increase market dimension and integration and fostering European competitiveness. For instance, trade integration over the Atlantic, aiming for a Transatlantic Common Market, is an historical opportunity. SMEs are expected to gain considerably from a comprehensive EU-US FTA because the US is the most important market for European internationalized SMEs (18% of the export of EU27 to third markets in 2010) and SMEs are concentrated in the sectors most benefiting from a potential EU-US FTA, such as the processed food, the machinery and the motor vehicle parts sector. Reaching an agreement with the US is not meant to open our markets to hormone meat or imposing GMOs. On the opposite, a well-defined agreement with the US would better protect our agriculture sector and food industry and secure the respect of our geographical indications: just think that every year 24 billion euros of "Italian sounding" products are sold in the US compared to a mere 2.8 billion export of real Italian food products. Moreover, opening up the US public procurement market would greatly benefit our firms which now have only a limited access to it because of the "Buy American" clause.

Last but not least, a competitive Europe cannot be achieved without macroeconomic and social stability. All member states have to continue to reform effort and avoid reverting to the old-times of

deficit spending. However the Great Recession was not only driven by some national mismanagement but also from the incomplete design of the Economic and Monetary Union. So while member states undertake their very much needed reforms also the EU should reform itself. We need in particular to strengthen the “economic leg” of the Economic and Monetary Union. A more resilient EMU requires some forms of risk sharing and automatic stabilization. The absence of a proper EU fiscal capacity has led to high social costs in the last five years. During the crisis we have made important steps towards mutual insurance, but now there is room to reflect on a proper fiscal capacity for the euro area which could provide the financial incentives, at least initially, for the implementation of major reforms at the national level and expand later into other stabilization functions (like for instance an EU unemployment benefit scheme). In this respect the work of the high-level group on EU own resources chaired by Mario Monti will be important to improve the functioning of the EU budget, provide the basis for a proper EU fiscal capacity and make the system more transparent and hence more democratically accountable.

In conclusion, improving European competitiveness requires not a single silver bullet but a broad set of actions and a strong political drive. At stake is not only the future of our economies, but the prospects of Europe itself.