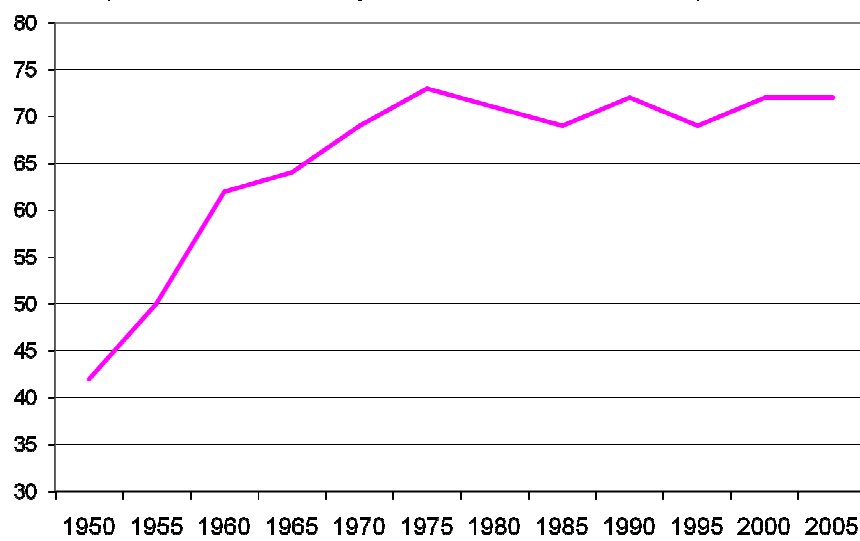


Raising long-term growth potential in the EU

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GDP/capita in EU-15, 1950-2005
(in PPS, constant prices 1995, USA = 100)



The need for reforms

- Europe is loosing distance to other regions;
- The traditional European economic model based on large state, high taxes, wide range of social protection measures addressed to all citizens, is unable to effectively cope with new challenges such as globalization, rapid technological change and demographics;
- Reforms are urgently needed to raise potential growth rate, increase competitiveness, create well-paid jobs and preserve our social model.

Key drivers of growth

- Faster productivity growth through education, better skills, R&D and innovations;
- Higher labor participation rates, taking advantage of increased longevity, better health standards and improved gender balance;
- Development of entrepreneurship through better regulations, more flexible markets and less red tape, especially for SME;
- In sum: knowledge + work + entrepreneurship;

From Lisbon Strategy do Europe 2020

- Why has Lisbon failed?
 - Lisbon goals mainly within national competences;
 - Weak social support because of poor public communication and lack of ownership;
 - Lack of political will;
- Will Europe 2020 succeed??? Not clear, because the key reasons for Lisbon failure have not been identified;

A New Agenda for Growth needed...

- A New Agenda for Growth is necessary, but no need for another „grand strategy” like LS or EU 2020;
- The new agenda should be ambitious, but politically realistic, pragmatic, and focused on measures with largest potential to accelarete economic growth:
- The measures:
 - Completion of the Single Market;
 - Macroeconomic stability and better economic governance system in EU;
 - Structural reforms;
 - Financial sector reforms;

Completion of the Single Market

- Full liberalization of the services market (1,5-2,0% of GDP);
- Opening of network industries (1,0-1,5% of GDP);
- Single market in digital economy (up to 4% of GDP);
- Integration of national transport infrastructure systems (TENs);
- Tax issues (CCCTB, indirect taxation);
- Removing barriers and constraints on business activities, especially for SMEs;

Strengthening macroeconomic stability

- Making EU fiscal rules legally binding;
- Crisis management mechanism (ESM);
- National fiscal frameworks in Member States consistent with EU fiscal rules (Fiscal Policy Councils);
- In this context the „Pact for the euro plus” is a step in the right direction, but should be open for non-euro Member States;
- Reform of convergence criteria to allow NMS with solid macro-foundations to enter the euro area;

Structural reforms

- Pension reform, based on defined contribution and capital pillar, and including extension of mandatory retirement age;
- Public finances reform aimed at reducing inefficient and badly-addressed expenditures, and increasing the role of indirect taxation;
- More flexible labour markets (flexicurity) and replacement traditional policies with active LMP, aimed at higher labour participation rates;
- Building knowledge-based economy through better education (tertiary level!), support for R&D, promoting innovations and close links between R&D and business sectors;
- Better regulation and less bureaucracy to facilitate business conditions;

Financial sector reforms

- Macroprudential regulations and supervision;
- Improving banks' balance sheets and strengthening their capital base;
- Changing bank regulations to better deal with risk assessment and prevent credit bubbles;

Conclusions

- The „old“ economic model inefficient and inadequate for new challenges;
- The „new“ model should be based on knowledge, work and entrepreneurship;
- The New Agenda for Growth should be pragmatic and politically feasible, and focus on:
 - Completion of the Single Market;
 - Macroeconomic stability;
 - Structural reforms;
 - Financial sector reforms;
- As key responsibility is on Member States, the success crucially depends on political will and determination of national political elites;