

# Meeting the EU's policy challenges in the new quinquennial

Address at the joint OeNB-EIB-WIIW conference on “Boosting  
CESEE's competitive edge to escape the middle income trap“

11. September 2024

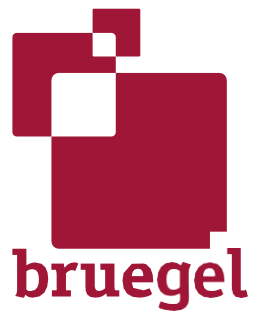
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Jeromin Zettelmeyer

Based on “Memo to the Presidents of the European Commission, European  
Parliament and European Council”

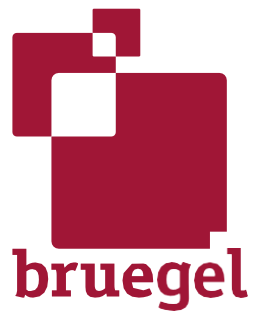
(with Maria Demertzis and André Sapir)

# Familiar challenges. But a a lot tougher than 5 years ago



- 1. Growth.** *Baseline problem:* comparatively low productivity growth. *Now exacerbated by:*
  - Persistent terms of trade shock (higher energy prices);
  - Competitiveness challenges in export markets, China
  - Medium-term fiscal drag;
  - Longer-term adverse demographics
- 2. Decarbonisation.** *Baseline problem:* pulling off the EU's Green Deal *Now exacerbated by:*
  - Less fiscal space
  - Less political space (an even more polarised electorate)
  - Vanishing global carbon budget and the need to curb emissions growth outside the EU.
- 3. Security.** *Baseline problem:* security dependence on US, with Russia next door. *Now exacerbated by:*
  - A much more acute Russian threat (from low-level war in eastern Ukraine to an all-out invasion).
  - Economic security (mainly a threat from China, but potentially also the US)

# Some things have gone well ...



## 1. Coherence, speed, solidarity in the face of crises

- Covid (Next Generation EU funds, joint vaccine procurement)
- Attack on Ukraine (sanctions against Russia, assistance to Ukraine, coordinated energy response)

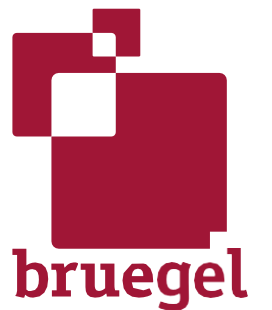
## 2. Legislation that recognises and starts to address longer-term challenges.

- Climate (including Just Transition Fund, Social Climate Fund)
- Digital regulation (particularly Digital Markets Act)
- Economic security legislation (particularly Anti-Coercion Act).
- An acceptable compromise on fiscal rules (not great, but better than old rules, and better than no rules).

## ... while others have not:

- Very little progress on single market
- No progress on “own resources”
- Dangers of over-regulating
- Confused debate about EU’s open rules-based model which often failed to recognise trade-offs

# Advice to the new EU leadership: the main principles



## 1. Be smart: understand where trade-offs between objectives are inevitable and where they are not

### *Trade-offs inevitable or likely as a result of:*

- Limited fiscal resources (green investment, social cohesion, defence)
- Reduced openness (may help security, may help social cohesion, but hurts growth; hurts green transition)

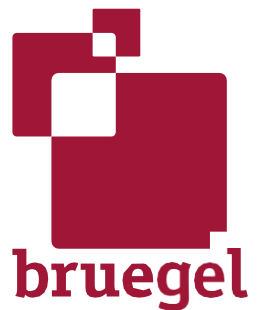
### *No trade-offs – indeed, complementarities:*

- Deeper and broader single market (helps both growth and economic security)
- Vigorous intra-EU competition enforcement (helps growth and external competitiveness).
- Improvements in EU governance (e.g. qualified majority voting)

## 2. Be brave: challenge political red lines, particularly where trade-offs bite

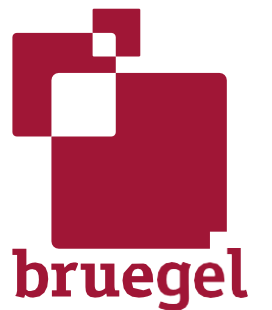
- More coordination where needed; more delegation to EU where efficient; more common funding where efficient; breaking down remaining single market barriers; EU budget reform; EU level decision making

# Advice to the new leadership: the main policy priorities



- 1. Deepen single market and coordinate policy in areas of highest growth impact**
  - Energy policy and investment, capital markets, banking union, services markets.
- 2. Curb regulatory excess and make regulation more growth friendly**
  - Systematic impact assessment, independent ex-post evaluation, single digital regulator
- 3. Improve and expand EU-level innovation and industrial policy**
  - Mission oriented (e.g. green competitiveness) and competition friendly, executed by an independent institution
- 4. Reform and (only then) expand EU budget**
  - Focus on climate, cross-border infrastructure, international partnerships, innovation. National co-financing of CAP.
- 5. Defend competition, openness, and multilateralism**
  - Countervailing tariffs can be necessary, but within multilateral rules. Defend and reform WTO with like-minded members.
- 6. Safeguard the Green Deal and extend its global reach**
  - Protect vulnerable groups; scale up cost-effective international climate finance (together with G7 partners).
- 7. Support Ukraine, strengthen EU defence, and create a single market for the defence industry**
  - This could justify common EU borrowing and a new off-budget fund (including to accelerate rearmament).
- 8. Address economic security blind spots**
  - Dependence via export and profit concentration, foreign assets, payment systems rather than just imports.
- 9. Reset relationship with the UK**
  - Ensure regulatory alignment; include UK in in single market for defence production
- 10. Reform EU decision-making for greater efficiency, and to prepare for enlargement**
  - Majority voting procedures; staged accession.

# How close are these recommendations to those of the Draghi report?



## *The similarities*

1. Similar approach: understand trade-offs, push political red lines where needed. Analytical. Smart *and* brave.
2. Similar emphasis on doing more at EU level when this is efficient.
3. Similar recommendations in many policy areas: innovation policy, (de)regulation, single market, competition policy, investment (public and private), the EU budget, safeguarding the Green Deal, strengthening EU defence, and improving EU governance for speed and efficiency,

## *The differences*

1. No pitch for maintaining rules-based international trade. Trade policy in the service of industrial policy.
2. A strong pitch for large-scale EU-level subsidies to industry, particularly energy-intensive industry.
3. Greater emphasis on near-term reduction of energy prices (including by reducing the fiscal burden on energy).
4. A narrower understanding of EU economic security, focused on reducing import dependence.
5. No discussion of the international dimension of climate action and how it might be affected by EU policies

# *Thank you!*

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