A strategy for a sustainable European future

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EWSA Brussels, March 1st, 2017
Outline

• A new strategy for Europe
• Vision, benchmark, goals
• Principles and drivers of change
• US vs. Europe: wrong policies and best reaction
• Summary
• Stronger Europe-more-national-scope
• Other issues
References and Affiliation

References
Karl Aiginger, New Dynamics for Europe: Reaping the Benefits of Socio-ecological Transition (http://Synthesis-Summary.foreurope.eu)
Karl Aiginger, How a strong Europe could create more national scope of action, Policy Crossover Flash Paper 1/2017, (www-querdenkereuropa.at)

Policy Crossover Center Vienna Brussel
– Interdisciplinary think tank of European policy problem
– European policy studies, working papers, newsletters, flash papers
– Boards (Kenneth Arrow †, Christian Kern, Sebastian Kurz, Social Partners, Hannes Swoboda, Othmar Karas, Ulrike Lunacec, Franz Fischler)
– Open for membership (150 €, 1,000 €, 10,000 € per year)
EU: a success model in midlife crisis

- Indicators of the long run success
  - From 6 to 28 (+), largest economic area (-UK?, +10?)
  - From trade agreement to common market and currency
  - Peace, soft power, spreading "rule of law" (© Jeffrey Sachs)

- Strengths of Europe:
  - Rising median incomes, high life expectancy
  - Rather stable world market share, export surplus
  - Manufacturing, energy efficiency, renewables
  - Integration machine (w.r.t. Eastern Europe: © World Bank)

⇒ Reassessing the European strategy needed
Challenges and weaknesses call for a new strategy

- **Challenges**
  - Globalization, ageing, heterogeneity, new technologies
  - Climate change, political instability, refugees, polarization

- **Weakness signs**
  - Lost decade, unemployment, R&D gap, poverty in S-Europe
  - Governance, Euro crisis, imbalances, exit parties, BREXIT
  - “not in a good state” (Junker, 2015); “broken system” (US)

⇒ New long run strategy commissioned to 33 teams

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The WWWforEurope vision in a nutshell

- Europe as role model for successful regions 2050:
  - Stronger dynamics based on innovation and human capital
  - Less differences in incomes, higher employment
  - World leader in environmental technology, energy efficiency
  - Heterogeneous preferences, pluralistic policy approach
  - Open area, enjoying globalization; inviting neighbours

⇒ A genuine European model of wellbeing
⇒ Deepening existing strengths
⇒ Not copying US or Asian models.
The vision in operation

- Vision starts from goals not from problems
- Fiscal consolidation is necessary, but not sufficient; dynamics, employment plus sustainability are the goals
- Taxing financial transactions supports the real economy
- Distribution matters for growth and stability
- 20% youth unemployment is intolerable
- Europe has to deal with - and enjoy - internal heterogeneity

⇒ The growth path will be less steep than before
⇒ The welfare content of each point growth can increase
A new benchmark of performance

High and rising wellbeing

• This benchmark substitutes GDP and GDP growth
• Theoretical underpinning: Beyond GDP concept
• Operationalisation
  – Three strategic goals
  – With several objectives within each goal
  – Measurable by Better life indicators OECD, EU
The three strategic goals for wellbeing
The three pillars in detail

Economic dynamics
– Income growth for individuals/regions below median
– Structural change, mobility, opportunities (no petrifaction)

Social inclusiveness
– Halving unemployment, spec. youth
– Reducing inequality (starting chances, gender inequality)
– Empowerment, activation, symmetric flexibility

Ecological sustainability
– Doubling energy efficiency, and of the share of renewables
– Decreasing material consumption, waste, water use
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Three guiding principles

• Simultaneity between goals and instruments
  – Instead of silo strategies
  – Isolated strategies are expensive and inefficient

• High-Road-Strategy
  – Forfeiting low costs and standards
  – Based on capabilities, ambitions

• Two-stage strategy
  1. Consolidation and reprogramming (restarting growth)
  2. Socio-ecological transition: low or long-run growth

⇒ First stage not business as usual but investment in change
It has to be a high-road strategy

- **Productivity** more important than costs
  - Enlightened version of cost competitiveness:
- **Competitive advantage:**
  - Quality, sophisticated products, **technology**
- **Growth drivers:**
  - Innovation, education, universities
- **Ambitions/Institutions:**
  - Social empowerment, ecological excellence, trust
- **Objectives:** Beyond-GDP goals in general

⇒ Europe has to go for a high road strategy
It has to be a two-stage strategy

• In the very long run (rich countries) will have lower growth
  – Supported by decreasing marginal utility of income
  – Increasing non material values with rising income
  – Burn outs are neither warranted nor necessary

• But over the next 10 years we have to have decent growth
  – For returning to full employment, paying back public debt
  – Favouring redistribution
  – Jobs for migrants and refugees
  – Driven by investment in decarbonisation and social innovations

⇒ Tripling GDP up to 2100 (1.5% p.a.) neither feasible nor warranted
Seven drivers of change

- **Innovation**: boosting and redirecting
- **Dynamics**: reducing inequality, investment in change
- **Welfare**: from protection to social investment
- **Employment**: symmetric flexibility + upgrading skills
- **Energy**: decoupling and decarbonisation
- **Public sector**: halving taxes on labour
- **Finance**: recommitting to real economy & societal needs
Facilitators for change

Why it should *work this time*:

- Going for compromises, *not corner* solutions
- *Bundling reforms*, partial compensation, *fairness*
- Taking business, social *partners*, NGO’s on board
- Inviting *youth*, migrants, new actors
- Monitoring progress by *indicators* ("nowcasting" GDP)

⇒ Necessity of change is understood
⇒ Potential for excellence exists
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The two roads reflected in current discussion for the US and EU

- **Low road path:**
  - Low wages, *trumping* social, ecological, financial standards
  - Fracking, *drilling*, new pipelines, defying carbon taxes
  - Imposing *import* taxes
  - Calling for emerging countries to start with CO₂ cutting

- **High road path (EU 2020, Roadmap 2050, MIT, 2013):**
  - Climbing up the quality ladder: education, innovation
  - Providing capabilities, “new” industrial policy
  - Exchange with neighbours (*Fulbright, ERP*)
  - Consider societal goals in industrial strategy
Consequence of the US low-road strategy

Short run:
- US restarts first to grow a little bit faster
  with some positive spillovers to Europe: demand, stocks
- US will become the largest exporter of fossil energy
- Life time of fossil energy extended
- Investment in renewables discouraged in EU and US
- Transfer of clean technology to emerging countries reduced

Medium run:
- Retaliation and return of problems

Long run:
- Foreign culprit needed, military buildup
The superior answer for Europe

- Leadership in clean technologies/energy efficiency
- Exports to and cooperation with emerging economies
- Close deficit in R&D, top universities, key technologies
- Invest in raising standards in emerging economies
- If there remains a cost disadvantage (e.g. in energy prices) overcompensate it by a bonus in education, research

⇒ Sweden, Denmark demonstrate that such a high road strategy can be successful
Europe should promote “responsible globalization”

- Upward harmonization of standards
- Compulsory use of best technology for firms investing
- New agreements with neighbors, Asia, S- America,
  - With rules promoted by parliaments
- Europe as a partner for reducing inequality and emissions
  - Promoting skills and cultural exchange
- European values in globalization could be a new narrative
  - If peace project is taken as mission completed (what is wrong)
Wrong dichotomy: more Europe vs renationalization

- Global challenges: climate, security, migration, technology
  Need some common answers but
- Citizens vote for renationalization, uprise of exit parties, Brexit

Solution principles
- Concentrate on better life issues: employment, equality, climate
- Topics where proven advantages of scale, or public goods
- Intervene in way to mobilize and make use of decentralized initiatives

Operationalization
- Subsidiarity: principles vs implementation, subsidiarity court
- Discussing mandates ex ante, controlling ex post (TTIP)
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Mind setting changes in concepts: performance, competitiveness, industrial policy

• From GDP ⇒ *broader goals* as performance benchmark
  ⇒ Dynamics, social inclusiveness, sustainability

• From competitiveness as low costs
  ⇒ Capabilities delivering goals

• From isolated industrial policy favouring old structures
  ⇒ Systemic policy supporting high road competitiveness

Europe can succeed only by a high-road strategy
⇒ Delivering dynamics, inclusion and sustainability
The new should not be the old: Common Principles of restarting growth

Strategy
– Less inequality as driver of consumption
– Decarbonization as driver of investment
– Skills upgrade, R&D as driver of employment exports

Narrative
– Leader in responsible globalization
– Stronger cooperation with Asia, Africa, S-America

=> Choices, openness, mobility, global cooperation
=> High road delivering Beyond GDP goals
A new European Strategy is necessary and feasible

- US wants to get rid of EU and Euro
- EU: driven by problems (banking, Brexit, refugees, GR)
- Populism will phase out if there is a shared vision
  - Dynamics, employment, lead in decarbonisation
- Europe will become a success model again
  - Needs a new strategy and a new narrative
  - Investment into change

⇒ Europe: the best model for a high income region
⇒ The 21st can still become Europe’s century
The European road to wellbeing
A strategy for a sustainable European future

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How a strong Europe could generate more scope for national policies

Policy Crossover Center
Background report and flash paper
Karl Aiginger

Vienna, 19.02.17
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• **Stronger Europe-more-national-scope**
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Dichotomy: Policy coordination needed vs “give us our country back” (renationalization)

• Citizens want “better life”, political stability, wellbeing
  – under difficult conditions, low dynamics, high unemployment

• New challenges: climate, stability, migration, technology

• Economic and social problems
  – low dynamics (spec. EU), high unemployment, inequality

⇒ Policy coordination vs. renationalization
⇒ Is there a solution for this dilemma?
New challenges cannot be solved by single countries, not even in big countries, no single challenge.

Cooperation (EU, global) got more and more difficult:

- Distrust for policy, experts, facts
  - “centralistic”, wrong direction, lobbying, anonymity
- Opposition to (Hyper-) Globalization: race to the bottom

Solution: turn dichotomy into discovery process; 3 elements

- Concentrate on big issues for better life: unemployment, inequality and climate change
- Topics where proven advantages: scale economies, public goods
- Intervene in way to mobilize decentralized initiative

⇒ Four policy fields, three best practice
Tax policy

What should be enforced at the EU level

– Minimum rates for value added, emissions, corporate tax
– Harmonization of tax base
– Transparency, country to country reporting of activities

Benefit: each country can tax according to own priorities

– Instead of pre occupation: leakages, danger tax base shifting

Today: highest taxes on labor, this boosts unemployment

– Low taxes on energy, emissions, inheritance
Sustainability

What should be enforced at the EU level

– Restarting emission trading (taxing emissions)
– End of subsidies for fossil energy and nuclear power

Benefit: relative cost advantage for all alternatives

– Higher energy efficiency, lower emissions
– Each country can go for alternative with highest potential

Today: subsidies for fossils larger than for renewables

– In case of shortage; restart of coal plants
– If emission goals missed => cheating (diesel)
– Discovery process superior for decisions under uncertainty.
Anti-cyclical fiscal policy

What should be enforced at the EU level
- Coordination when to boost demand, when to cut
- Priority to intangible investment vs tangible
- Mutual debt financing (Eurobonds, up to 80% limit)

Benefit: higher efficiency (multiplier), lower leakages to neighbor
- Country can choose: higher expenditures, lower taxes
- Debts if investments are profitable, prudence if debt is high

Today: decreasing popularity of anti-cyclical policy (EU vs US)
- Inability to raise R&D to 3% (goal since 2000, actual 2%)
- Fiscal compact ignored, sanctions not operational, dynamics low
Shaping globalization

What should be enforced at the EU level
– Defining and enforcing European goals and standards
– Cultural, social standards: upward harmonization

Benefit: increasing welfare by open markets and trade
– Boosting competitiveness vs Asia and US
– Eliminating monopolies while preserving standards
– High road competitiveness feasible

Today: trade agreements rejected or unenforceable (TTIP, CETA)
– Losers not compensated. Opposition, populist surge
– Race to the bottom for standards, particular interest prevail
Best practical examples

European Regional Policy
- More funds than ever possible on national level
- Funds conditional on regional professional planning
- Each region can set its own priorities

European innovation policy
- Higher priority than in national policy
- Based on tenders, bottom up research proposals
- Evaluating programs, including education systems (PISA)

Climate agreement Paris 2015 (COP 2015)
- Common ambitious goals, national concepts for implementation
- Control, adjustments, learning, financial help for low incomes
Principles and implementation

• Subsidiarity: principles vs implementation
• Discussing mandates ex ante, controlling ex post (TTIP)
• New vision: transition to dynamic social, sustainable model
• A new narrative: European footprint in globalization
• External stability: investing, cooperating with neighbors (ERP 2020, Schumpeter program for cultural exchange)

⇒ This still can become the European century
⇒ Europe has the best model for rich societies
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