PRIORITIES FOR THE INCOMING COMMISSION

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The EU has to focus on competitiveness

The United States have decided to make a big play to become the number one player in clean technology. The vehicle to achieve this objective is the Inflation Reduction Act (IRA), which in essence is a big subsidy package aimed at bolstering the US industry and attracting foreign direct investments. With the IRA, the US opened the battle to attract clean tech business, which is why the IRA has also become infamous in European capitals. It threatens to widen the economic gap between Europe and some of its fiercest international competitors.

The IRA is a big problem for the EU and its Member States, which already suffer from economic headwinds such as persistently high prices and disrupted supply chains following Russia's war of aggression in Ukraine. One thing is abundantly clear though: it would be a fool's errand to enter into a costly subsidy race with the US. Lacking sufficient firepower, particularly on European level, the EU would be bound to lose.

However, there is at least one good attribute to the US Inflation Reduction Act from the European perspective: It sharpens the focus towards what really matters - competitiveness. After all, the reason why business move away from Europe to the US or decide to make their next investment across the pond, is hardly ever a one-off subsidy programme. On the contrary, what matters to European businesses and where they have been disappointed in the past is a general environment that is business friendly. To put it simply: the EU has to become more competitive, and the IRA has made that very obvious.

Becoming more competitive does not necessarily mean to spend a lot of money. You can maintain a high level of competitiveness, while being fiscally responsible. There is no obvious trade-off between these goals, which is why it would be a misconception to believe that the EU's economic governance regime would stand in the way of a more growth-friendly policy outlook.

While there is certainly a limited need for public investments in areas such as infrastructure, the bulk of the investments for green and digital projects has to come from the private sector. As we cannot rely on national expenditure or European projects such as NGEU alone, we need to put the private sector into a position to actually make those investments.

They key policy objective for the years to come therefore has to be to restore the EU's competitiveness. The first step would be a regulatory moratorium. In this mandate, the European Commission has adopted a plethora of policy proposal, most notably under the "Green Deal" umbrella, that all have in common that they substantially increase the regulatory burden for European companies starting with excessive reporting requirements and ranging to more substantial provisions. Those policy proposals all had their justifications, but they also had their respective undesired side-effects and they are a considerable burden to implement. That is why it would be the right moment to leave some time for the private sector to digest and properly implement the body of proposals that were adopted over the past few years.

A second step would be not only to stop introducing new requirements, but to start getting rid of the most burdensome old ones. The European Commission once had a high level group on administrative burdens, which had the task to simplify existing EU legislation and identify particular burdensome pieces of European legislation. It would be high time to reinstate this group and provide it with a broad mandate.

Another element to make Europe a more attractive place to do business would be to complete the Single Market, but not by harmonising each and every detailed rule, but by tackling the big issues such as divergences in taxation and insolvency law that stand in the way of companies making the maximum use of the Single Market. The Single Market also needs to be made easier to navigate for small companies, which often shy away from the complexities of doing cross-border business. One-stop shops as a central contact point for all Single Market issues could be a useful invention in this regard.

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There is of course also a case for a new smart industrial policy that actually serves European interests. That does not necessarily mean more state intervention, but limited and targeted involvement to provide the right incentive at the right moment. The best example where this might be needed is competition policy where the Commission as the EU's ultimate competition watchdog often stood in the way of outcomes that would have been beneficial from a pan-European standpoint.

The US Inflation Reduction Act is regarded by many as a curse, but if we draw the right lessons and refocus on competitiveness, it can turn out to be a blessing in disguise.

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How can Brussels catch up with Uncle Sam?

The unprovoked war that Putin is currently carrying on in Ukraine might have reinvigorated the transatlantic cooperation. However, the economic differences between the EU and the USA have been growing already for a longer time. As J. Shapiro and J. Puglierin from the European Council on Foreign Relations note, in 2008 the EU's economy was somewhat larger than the United States'. In the last 15 years, however, the US economy had reached 25 trillion dollars, while the economy of the EU and UK combined had grown to less than 20 trillion.

The EU lags behind the USA economically and technologically (not to mention the military perspective) so the question remains if the new or ongoing initiatives can help the European Union in catching up with Uncle Sam.

Firstly, indeed, the UK is worse off without the EU than the EU is without the UK. However, the Capital Market in the European Union without the United Kingdom is almost non-existent compared to the United States. We lack the financial know-how and the institutions of the City of London. Despite the CMU initiative commenced in 2015, our financial sector is still fragmented, overbanked and does not give retail investors enough motivation and reasons to really invest. At the same time, there is still hope, since the topics on the European agenda, such as the Listing Act or the Retail Investment Strategy, can potentially address some of these problems.

Secondly, while one can perceive the Green Deal as a great EU project, which does not only serve to be environmentally crucial, but also unhamper European R&D, the Americans seem to do it better. The recent, election-fueled, negative connotation of the Green Deal connected to some European legislative acts, have only shown that many Europeans are unfortunately tired of the 'green dream'. In the meantime, the US agreed on the Inflation Reduction Act, supporting green investment on the North American continent which may have a negative spill-over effect on the European economy (in some EU countries bigger than in others).

Thirdly, for the EU to get closer to the US again (which would be of great benefit to the Western civilization) it needs investment and a pro-investment climate. In the meantime, technologically significant start-ups seem to be mesmerized by the 'American dream'. We rely on large American technological enterprises and have a problem with agreeing on the EU budget. For the US, investment is 'a credit card swipe' away, while the EU only recently agreed on a common debt through the Next Generation EU initiative.

In the EU, we need to lay a common foundation - a Europe-oriented foundation.

Lastly, the concept of a 'strategic autonomy' has been a music to the ears of many Europeans in the post-pandemic times. One cannot perceive that autonomy only as a military (as we are still dependent on the US in that matter) or trade concept. It has to embrace various spheres of the European way of life. However, it is difficult to walk the talk on various fronts. Let us take one topic, which seems to be a no-brainer, but on which I have been working on recently - payments. It is an open secret that the biggest credit card companies in the world are American. The recent initiative on instant payments of the European Commission - if implemented ambitiously - could be a potential impulse to overcome the American monopoly on this matter; the first step in the direction of an 'open strategic autonomy' in the payments sector in the EU. Little did I know - an ambitious view of the Parliament was quickly torpedoed by many member states and financial institutions.

Still, the European way of life, with far less inequalities than in the US and with a market economy based also on social progress, is still something that is attractive for many. Moreover, one has to emphasize that the EU can be perceived as a certain 'rule maker', pushing multinational enterprises to adopt to European regulations (thus, spreading them worldwide). However, there is a huge difference between creating wealth and regulating it.

Behind all of these challenges, despite the great encouragement and significant projects presented by the European Commission, lays the most crucial, and yet obvious, difference between the European Union and the United States - the EU is not a single country. Dissimilarities and various priorities presented by EU member states, the national egos, interests and selfishness play a crucial role in the - already difficult - political process.

In order not to sound pessimistic, one should understand that for the EU to come back to being something more than a group of wealthy countries, it first needs to put aside national egos. Even the best legislative proposal or strategic idea can be watered down in the European legislative process in order to simply be accepted. Many pandemics-related challenges were solved as we thought like Europeans. Why not do it now? While focusing on building a true Banking Union, Capital Markets Union and emphasizing our 'open strategic autonomy', we need to lay a common foundation; a European-oriented foundation.

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EU should aim to enhance innovation and foster global cooperation

Global competitiveness is shaped by various factors, including global trade, human capital, infrastructure, the business environment, sustainability, and technological advancements. Jurisdictions that invest in research and development, foster innovation, and adopt cutting-edge technology can gain a distinct advantage in the global market.

In Europe, the ageing workforce poses significant challenges, raising concerns about labour shortages and decreased productivity. As a considerable portion of the workforce nears retirement, the importance of EU policy measures such as NGEU and other initiatives cannot be understated. This demographic shift coincides with the EU's struggle in strategically important production, where the outsourcing of vital products and services could lead to an dependency on certain third country suppliers.

This not only jeopardizes the EU's economic autonomy but also exposes it to supply chain disruptions and geopolitical uncertainties. To address these complexities and enhance global competitiveness, the EU needs to continue setting out in long-term policy measures and funding programmes which could help reduce the shortfall. The EU also faces specific challenges in promoting a strong start-up culture, lagging behind the US and China in digital innovation, and contending with strict labour market regulations.

Moreover, the lack of a coordinated industrial policy hinders support for crucial industries. Addressing these issues is vital to bolstering the EU's global competitiveness and securing its position as a leader in the increasingly competitive international arena. When considering the question of competitiveness of the EU vis-a-vis global partners, it's important to take into consideration the different legal frameworks and how they may impact the ability of firms to compete at home and abroad.

We can say with a relatively large degree of confidence that Europe is leading the way when it comes to legislation addressing emerging challenges in the financial and technological sectors. Europe tends to have clear rules which firms are expected to adhere to, and given the sophistication and purchasing power in European markets, most companies will work to ensure they meet European requirements. Specifically in the financial sector, and with the emergence of digital finance firms, which by definition work less to geographical borders, we see that the EU can often have the first-mover advantage, with other jurisdictions following in our footsteps to develop rules based on those we have conceived.

We must be consistent in our sectoral policies in order to give regulatory clarity to businesses.

This is clear for example in drawing up rules for operational resilience and crypto markets. However, there is also the risk that if in Europe we continue to devise prescriptive rules with very strict provisions when it comes to third countries, we could see a loss of competitiveness in Europe, and also for our own businesses if they want to compete on price beyond the EU. Going forward it is important that we act consistently in devising legislation, and that those rules are flexible enough for firms based in third countries, especially likeminded partners across the globe.

That applies also for horizontal sectoral policies, such as the AI act and Data Act. To take the example of AI, it can help businesses to automate tasks, improve efficiency, and make better decisions. It could also be useful for financial market entities by providing the ability to predict and respond to risk.

Given the horizontal legislation relating to various areas, it's then important that in our decision making on legislation in Europe we avoid conflicting requirements and duplicative measures which lead to overburdening companies and potentially discouraging them from investing in European businesses. We must be consistent in our sectoral policies in order to give regulatory clarity to businesses.

This is important when it comes to closing the economic gap between the EU and other jurisdictions such as the US, where regulation tends to come only after innovation. In Europe the concept of open strategic autonomy has been gaining traction. In my view it is important to avoid closing Europe off from the world by virtue of our legal framework, especially to likeminded countries. It is a fine line between protecting our interests and becoming a version of 'Fortress Europe'.

Our growth potential becomes more limited the more we shut our financial sector off from the rest of the world. We have some excellent policy measures which have the potential to help the European economy, and particularly our SMEs, including Next Generation EU and InvestEU.

These programmes help supplement capital to the businesses that need it the most. Nevertheless, while conceptually strong, ultimately their success depends on implementation. We see that the long term viability of funding through these programmes can make or break businesses. If the guarantees offered are only over a short period of time, it makes it difficult for private investors to commit to a long term project.

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The return of industrial policy without demise of the single market

The European Union's single market has been a remarkable success over the past three decades, establishing itself as the world's largest integrated market area while being one of the most open economies in the world. It played a major role in the upward economic convergence in the EU. However, successive crises and increasing geo-political tensions have underlined the need for strategic autonomy - or better strategic (in)dependencies. This puts Europe's lagging competitiveness in a different light. The economic gap between the EU and its major economic counterparts is widening every year. Average productivity growth is weaker than other large economies. R&D investment intensity in the EU falls behind the US with 2,3% of GDP compared to 3,5% respectively.

Based on current the trend, the EU will not reach its 3% target in 2030. Besides, the European idea of rule-based, open economies has been crushed between the Chinese state-directed developments and the American private monopolistic tendencies. To restore the position of Europe in the world economy a coordinated approach with permanent funding is needed, while pursuing a more effective anti-trust policy.

Indeed, recent successive events have changed Europe, and industrial policy has returned centre stage. The Covid pandemic demanded a bold response and led to common borrowing, strategic investment and easing of state-aid measures. The war in Ukraine and its subsequent energy crises and period of high inflation, required strong interventions to mitigate market outcomes. Biden's US Inflation Reduction Act ruffled many feathers and fueled further state-aid competition.

Member State aspiration to compete at the global stage threatens to undercut the competitiveness of the single market as a whole. Germany and France called for further easing of state-aid rules. Most other Member States were wary, rightfully so. The European industrial powerhouse, Germany, accounted for more than half of European state aid under the temporary crises framework. Combined with France they were responsible for 77% of approved state aid. Instead of Germany or France, the European Union should be the main character. Therefore, it needs to be equipped with credible financial powers.

Size matters and unfortunately, the EU institutions are not blessed with large budgetary powers. A budget of a mere 1% of GDP is unable to absorb shocks. Moreover, the budget, set for 7 years, is too rigid to protect against the unforeseen. Consequently, the only tool left at the Commissions disposal seems to be the unfortunate easing of state-aid rules. This leaves Member States with fewer financial resources are left in the cold while fragmentation sets in.

A permanent fund is necessary to reignite the Unions competitive flame.

Accepting economic divergence and indebting Member States is a choice that will lead to Europe's own demise. Instead, focus on fostering fair competition in the single market, while keeping industries globally competitive. This focus necessitates a sizable budget. One that can deploy financial support in a direct, fast and flexible manner, bolstering the Union's competitiveness.

Reinforcing competition policy while at the same time pursuing a European industrial policy that selectively supports green production and strategic sectors and is backed with a permanent fund, is the way back up. Only with a coordinated response can the power of our single market be unleashed. We need to kick-start investment and avoid the traps of duplication. A permanent fund serves this common goal.

The twin transition requires major public and private investments, that will boost GDP growth in the long run and, even more importantly, with the aim of sustainability with reach. Indeed, the metric of GDP growth is clearly insufficient to measure the aim of the transition.

New funds need to be unleashed. If necessary through common borrowing, but common borrowing requires credible methods of repayment. So, new own resources like a single market levy need to be introduced. A permanent fund requires permanent funding sources.

New funding should focus on additional rather than already planned investment. It is through a permanent fund that the Union can reignite its flame. At the same time the Union should keep and reinforce the internal market in which barriers to entry are further eradicated, anti-trust busters are active and effective, and competition flourishes.