Priorities for the next Commission

Introduction

The Chair welcomed the attendees to the panel reviewing the priorities for the next European political cycle, first in terms of macro issues, then Capital Markets Union (CMU) and banking union. The discussion showed that the key policy objective for the years to come is to restore the EU's competitiveness. The EU is not a single country, but to build a true banking and capital markets union, national egos should be put aside to lay a common, European-oriented foundation.

1. Restoring EU competitiveness is the key policy objective for the coming years

1.1 Addressing economic and fiscal divergence between EU member states to catch up Europe's lag in competitiveness

A public representative stated that the key word in discussions about the next European Commission will be competitiveness, specifically loss of competitiveness in the face of China and the USA. Europe lacks the capacity to mobilise resources on focused objectives and lags behind the US economically, technologically and militarily. Europe has a weaker risk-taking culture and should consider CMU as a chance to strengthen it.

Internal competitiveness within the EU must also be considered. The main structural weakness of the EU is economic and fiscal divergence or heterogeneity between member states. The reform of the Stability and Growth Pact (SGP) holds relevance. Cosmetic changes have been proposed which will not deal efficiently with the structural issues of the EU. The EU must deal with the lack of fiscal discipline and the lack of flexibility, meaning that the proposed policies are procyclical.

A European fiscal framework should be built based on two pillars. There should be simple expenditure rules. The simpler the rule is, the more difficult it is to circumvent. On the other hand, a fiscal instrument is required like that used for NextGenerationEU (NGEU), which should be permanent, and should be strictly controlled by the European Commission or the Council and used in the event of asymmetric shocks suffered by different countries.

An official agreed that competitiveness will be on top of the agenda. The Commission has neglected the idea of an agenda in the past few years. There is need to decarbonise and to get rid of fossil fuels. This will require a transition period, the meaning and consequences of which have been neglected. The lack of attentiveness has resulted in a need to catch up. The international community must be on board. If the EU decarbonises to the extent the Commission is proposing, 7% of CO_2 emissions will disappear. This does not mean much at world level.

The Commission has said it will be a geopolitical commission and needs to get others on board with its efforts in the current international context with China and the US very active, especially with the American Inflation Reduction Act.

The Office of Management and Budget in the United States says that there is about $1,000 billion in tax breaks. There will be many American companies that will not pay any taxes for the foreseeable future, which gives them huge investment opportunities. The longer-term consequences of this have been underestimated. The EU must not be behind the curve. It should get in front to safeguard competitiveness, jobs and welfare.

The political decision-making process within the EU is quite complicated. Enlargement should not complicate that political process even more. There will be two things that will need to be efficiently taken care of, which are the enlargement and the impact on the political decision-making process.

1.2 Increasing productivity and reinforcing competition policy to reignite the Union's competitive flame

A public representative agreed that competitiveness and productivity are crucial. Prices can be lowered to drive competitiveness, but that is not a goal, so the focus shifts to productivity. There are concerns in that regard.

Average productivity growth is weaker than other large economies. R&D investment intensity in the EU falls behind the US, at 2.3% of GDP compared to 3.5%. The EU will not reach its 3% target in 2030. 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.

The US has overtaken Europe in terms of productivity which shows that Europe must invest more. European funds are needed for investments in essential industries like green hydrogen and batteries. Interest rates have gone down since the mid-1990s and investment rates are flatlining. If rates are flatlining, productivity, whether public or private, will not grow.

There needs to be more public and private investment. Sustainable finance should ensure that private and public investments are aligned. There should be a focus on transition. There has been too much focus on green transition through the taxonomy. It is not about being green but becoming green. There should be a sustainable finance framework so that all corporates can make the transition towards sustainability.

The other part is that investment must be financed alongside rising healthcare expenditure in the Europe. The EU might want to maintain or reduce its debt. Capital has been undertaxed, and labour has been overtaxed, and there should be national and international efforts to remedy this. The mobility of capital has increased such that there has been a lowering burden of capital, which cannot be afforded with the goal of investment and higher productivity.

When talking about competitiveness, the competition policy and lack of it in Europe must be addressed. 70% of profits of the top 50 IT firms goes to America, 23% goes to China and Southeast Asia, and 3% through the EU, including ASML in the Netherlands. The large earners and large corporates are Google, Facebook and Amazon, which have taken hold of the economy without a competition policy in place in the EU. There should be more competition in the market to allow interoperability.

The Chair commented that there are not enough fast-growing companies in Europe and those companies have nowhere to go to get capital. They instead go to the US, which is a serious problem.

1.3 Pursuing the strengthening of the single market

An official observed that the best way to increase productivity is to increase the consolidation of the single market.

In terms of regulation, if new environmental rules are to be passed, there are some problems in the Parliament and in the Council. To advance the single market, it is mostly agreed that there should be a real European single market, and banking and capital markets are far from this. One objective to focus on for the next few years is to advance faster in the single market in banking and capital markets, as well as in other sectors.

There is a need for the EU to increase resilience and autonomy in the global market. There should be an advance in the industrial policy. Globalisation has started in a new process. The EU may be approaching regionalisation more than globalisation, but most of the new measures and new norms to increase autonomy will also increase inflation in the short term. It is unclear whether the means that the Commission introduced in some proposals will be successful. In the meantime, inflation will be higher and public expenditure will be higher, and public money will be moved from other objectives to review the industrial policy with a potentially questionable impact.

There is a debate on the budget and own resources. New European debt was issued during the mandate which must be repaid. There is political agreement between the Parliament, the Council and the Commission to put in place new own resources to repay the debt, but this is a faraway objective. The own resources are key for the future.

If there is any kind of fiscal stabiliser where the objective is different from the convergence policies, there are two debates: one on convergence and the other on anti-cyclical elements.

The Chair stated that there is the question of whether Europe needs to speed up the decision-making process. The second issue is whether institutional changes are to deepen the single market or build a permanent institution, or NGEU, and give more responsibilities to it.

A public decision maker commented that the notion of competitiveness should not be moved away from, and it has been neglected in past years. Long-term strategy documents in the EU refer to smart, sustainable social growth, yet rarely mention competitiveness, so lack of focus on competitiveness should not come as a surprise.

Productivity has been decreasing for two decades in quality and in comparison, with the US. The labour force in the US has grown by tens of millions and productivity is growing. It is shrinking in Europe. Europe is facing structural problems, in terms of labour and skills.

The issue of regulation must also be mentioned. There were promises on the reduction of the administrative burden and that there will be a proposal from the Commission. This is a good step forward but the approach to this should always be horizontal. The Net-Zero Industry Act shows an interesting pathway for the future as it promotes labour and skills. It is also about the reduction of administrative burdens, especially for sustainable technologies, and about investment in industry which has been underestimated in the past years.

Most of the key successful companies will grow based on mobilised private investments, in which there are still issues, similar to capital markets. Capital markets in Europe are shrinking and at the same time there is a CMU initiative. Europe is failing in this regard. The last half year saw the least IPOs in Europe since 2008, indicating that there is something wrong. Without having enough funds built on own resources, it would be difficult to deliver successfully on climate and other goals. There must be a massive mobilisation of capital within Europe and from the outside.

1.4 Without a single market, nothing Europe does will work

A public representative stated that the question on the interference power of Brussels to member states has not been established in the future or present.

Europe needs a clear, transparent and democratic framework because it is unacceptable when the Commission, without any control from the European Parliament, takes decisions on member states. This must be fixed. It is a difficult debate, but to achieve an internal single market and increase competitiveness, a stable market is needed for the eurozone. An important step during the last few years was taken with NGEU, but there has not been any new own resources to repay the debt. If there are own resources on the table, decisions will be easier to take in the face of an important crisis in the future.

On competitiveness and the administrative burden, there is a need for more private and public investment, but the problem is who finances it. In Europe, it is banks. 70% of Europe's SMEs and companies are financed directly by banks, but there are national markets. There are thousands of national regulations and European regulations which give some powers to national governments and national supervisors to reduce the consolidation of the single market.

To increase competitiveness, reducing national regulations but keeping national borders will not work. Without a single market, nothing will work.

1.5 Mobilising four types of resources (labour force, Green Deal, regulatory framework and finance) to restore EU competitiveness

An official commented that mobilising resources is one of the key features to achieve competitiveness. The EU's key strategic resources must be determined. There are five key resources and each comes with challenges that must be tackled.

The first resource is people. The EU has a labour force, but there is not enough high-qualified labour. This must be addressed.

The second is forward-looking policies and the right targets. The Green Deal must be maintained until the end. The EU should be pragmatic and realistic but remain ambitious.

The third is the regulatory framework. The EU usually sets the regulatory framework ahead of everyone including competitors. There is a challenge with the implementation of that proper regulatory framework, which can play the opposite role and drive the gap between the south and the north, the east and the west.

Fourth is finance. The Recovery and Resilience Facility (RRF) has been by far one of the very successful policies of the EU in the last few years. However, only about 30% has been used and time is almost at an end, suggesting lack of efficiency. The EU does not know how to invest. Money must be used in the most efficient and effective manner for the benefit of industry and people.

Fifth, Europe has always been a driving force for innovation and ideas. This is Europe's key strategic advantage and should be boosted using all the other four resources.

2. To improve the Banking Union and Capital Markets Union, a European-oriented foundation must be laid

2.1 A functioning capital market in Europe would be helpful

A public representative commented that sustainable finance has a crucial role to play in aligning public and private investment. The Sustainable Finance Disclosure Regulation (SFDR) is a chance to align better with a taxonomy framework that has been developing in parallel. Better alignment is required to relieve unnecessary burden.

Finance needs to go to corporates for the change towards sustainability. This will help not just the corporate but the political debate as it will broaden the base and thus the support for sustainable finance. Only recommendations on transition finance have been made in this mandate and legislative initiatives are now required.

R&D is lower in Europe than in the US on the macroeconomic scoreboard. This is partly the result of aggressive takeovers by Google and Facebook. The US is turned to because it has deep pockets in comparison to Europe. The deep pockets of tech companies are as much of a problem as competition.

Christian Lindner and Bruno Le Maire wished for a revival of the CMU. This comes from the countries that shut down Debt-Equity Bias Reduction Allowance (DEBRA), which removes the debt bias from corporate taxation, and countries that take aim at the inducement ban or value for money.

While looking at alternative investment funds, there are shocking differences across countries in fees for investment funds, which is hampering the European market. In the UK or the Netherlands, the fees are low on average, but in Poland and Portugal, fees are incredibly high. If there is to be a European capital market, it must be noted that the market is not functioning at some points.

2.2 Active private investors or retail investors will not be interested in market financings without the proper tools and right framework

A public decision maker stated that domestic investors must engage before those outside, which is where certain challenges are faced.

In terms of acceleration, risk aversion cannot be changed. The driving force of the European economy is the SMEs or start-ups. The initiative on European legislation and start-ups is one of the last initiatives in the Parliament from the Committee on Industry, Research and Energy (ITRE) perspective.

One of the problems described by the start-up sector is the inability to fit into any regulatory framework without proper definition. It is difficult for start-ups to access funding as investors are not willing to take the risk of something that is not part of regulatory framework. The industry is working actively to ensure receipt of that stamp to get proper access to liquidity and financing.

The EU's environment is unique and requires internal work before thinking about attracting from the outside. The Retail Investment Strategy is also important as it goes back to the financial literacy of the society. Active private investors or retail investors will not be interested without the proper tools and right framework.

2.3 CMU should be approached in terms of a broader strategy and not as a set of single specific measures

A public representative stated that there is a need to properly mobilise private funding. A truly European cross-border culture must be built and cannot be done by one piece of regulation. There is a problem of how to approach the entire CMU initiative.

Funding is already available but is lying in different instruments or savings accounts. The idea is not to turn Europeans into Americans, but to adapt the US framework to the needs of Europeans. The amount of available funding can then be used both for financing the economy in growing SMEs and financing the climate policy targets and all the others.

This past year, the EU is losing on Foreign Direct Investment (FDI) compared to the US, indicating a problem in attractiveness. Making Europe greener and more sustainable was the right decision but this needs to be dressed up in an attractive way. There does not necessarily need to be more regulation as there are many rules and policies in place.

The discussion about sovereignty might not be needed in this context. The right thing on the best suitable level should be done using the currently available tools.

2.4 When a crisis comes, Europe knows how common its interests are. If the situation normalises, this means that the politics is still local. This is the main problem in the EU

A public representative observed that bank supervision is not the main challenge. The problems are on dynamics rather than security. It is not a real banking union if there is not a major cross-border takeover of banks in the EU.

What is at stake is sovereignty or a perception of it. CMU is about deepening the capital market in Europe. Huge progress was made by building the euro which is forgotten already. The problem with CMU is that it is a myriad of small and big changes that are very intrusive in national systems and the countries are very reluctant to give up on those interests or traditions.

When a crisis comes, Europe knows how common its interests are. If the situation normalises, this means that the politics is still local. For the EU to come back to being something more than a group of wealthy countries, it first needs to put aside national egos.

The Chair commented that as Europe has tried to build a banking union, CMU, sustainable finance and so forth, it has not used la méthode Delors. Europe has not been rigorous enough to show intellectually, with unimpeachable or academic evidence for all member states, that these things are beneficial.

A public representative noted that, if European capitals are ready to accept that at the European level their budget proposals are not only criticised but changed, fiscal union could work. If there is doubt about this, there will be a huge political discussion with tensions increased to a never-seen-before degree.

It is about sovereignty. The big problem for banking regulation is the execution. Europe has gone very far in following up and in having the data and analysis. When there must be action and potential elimination of one bank in one country, sovereignty and national sensitivities come into the equation. If the answer to those questions on sovereignty remain in a grey area, there will be problems with competitiveness, productivity and even climate policies for the foreseeable future.

2.5 A permanent fund is necessary

An official stated that Europe wanted a single monetary union and a single currency. There are no other sovereignty decisions that give back the sovereignty on monetary policy. A true fiscal union like the US is not necessary. The debate on convergence, how to move the money from north to south or south to north and how to increase or reduce inequalities is another debate. Reducing the burden on the European Central Bank (ECB) with a small fund could be useful. This fund could directly finance Germany which needs more investment. It is not a debate between north and south, but about how to build an efficient monetary union.

A public representative added that the question of subsidiarity is relevant in the European public debate but a discussion is required on the functioning of the EU and the need to extend membership to the western Balkans and to include Ukraine. There is a need to discuss what to do together and separately.

People already have a very good concept of subsidiarity. All the euro barometers long ago showed that people thought a common foreign policy is fine because people understand the concept of acting together in a big world. On other issues like taxation or climate change and energy policy, people perfectly understand that that is a natural role for Europe to have.

The Chair thanked the panel for their participation and wished the members success in their future elections.