

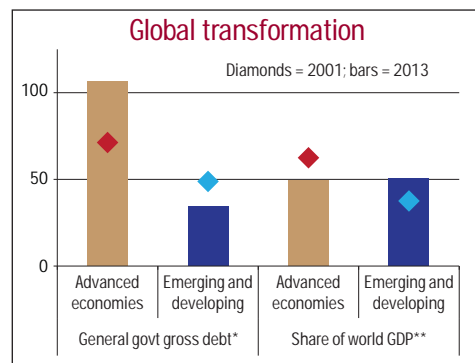
THE GREAT TRANSFORMATION: MEMO TO THE INCOMING EU PRESIDENTS

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THE ISSUE The European Union's leadership spent the last five years fighting an acute and existential crisis. The next five years, under your leadership, will be no less difficult. You will have to tackle difficult economic and institutional questions while being alert to the possibility of a new crisis. You face three central challenges: (1) The feeble economic situation prevents job creation and hobbles attempts to reduce public and private debt; (2) EU institutions and the EU budget need reform and you will have to deal with pressing external matters, including neighbourhood policy and the EU's position in the world; (3) You will have to prepare and face up to the need for treaty change to put monetary union on a more stable footing, to review the EU's competences and to re-adjust the relationship between the euro area and the EU, and the United Kingdom in particular.

POLICY CHALLENGE

The EU needs to adapt its economies to the global Great Transformation by deepening the single market, improving product markets and improving governance. This strategy needs to be combined with measures to boost the public capital stock to reap demand and supply-side benefits. A reform of the EU budget is imperative to orientate it more towards growth, while reform of



Source: Bruegel based on International Monetary Fund, World Economic Outlook Database, April 2014. *% of GDP. ** in PPP terms.

the Commission should deliver a more coherent approach to growth policies. Neighbourhood policy should be redesigned to allow for different forms of collaboration and global trade should be promoted. Finally, the treaty reform will have to focus on concrete measures to create a fiscal capacity with appropriate legitimacy and a new relationship with the UK.



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2. Also, the President of the European Parliament should accept that national parliaments use the subsidiarity review more often.

play a central role in the growth strategy, including by shaping the EU-wide fiscal stance, but she will have to operate independently of the many requests from within the Commission and focus on her mandate and the need to keep fiscal policy credible.

- The rigorous enforcement of competition rules is central for economic performance. Attempts to make competition policy subject to narrow industrial policy interests are unwarranted, as are claims that it prevents the emergence of European champions. Many sectors remain dominated by national operators in the different national markets, and substantial regulatory barriers still prevent companies, in particular in the services sector, offering their products in other EU countries. The single market agenda is therefore more relevant than ever.
- It is worth reflecting on competition policy decision making. Acknowledging the inherently complex nature of competition policy, a high-level commitment of five

EU institutions, is, however, unfortunately not enough. Arguably many of the problems you will have to fire-fight are the result of the still incomplete overall EU architecture and the lack of consensus on what the EU is and what it is not. You



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could be that the UK stops participating in the EU budget, wh