Introduction to the Issue on

EU Policy Priorities: How to Ensure Europe's Competitiveness and Future Prosperity?

Chang Woon Nam

There is little sign that Europe's gradual industrial decline over the last twenty years can be halted in the near future. Over the same period, the economic disparity between EU member states and US states has translated into an 82 percent difference in GDP per capita between the EU and the US. In the face of major geopolitical changes, Europe, which was at the forefront of industrial development and innovation in the last century, has become less competitive and its place in the new world order is no longer secure. The US, China, and some emerging economies have already overtaken the EU in many international indicator rankings, while climate change mitigation and digital transformation will continue to influence the next era of prosperity.

The EU and its member states want to build a robust and future-proof economy that ensures competitiveness and long-term prosperity for all in the face of a challenging geopolitical environment. To achieve this ambitious goal, the EU's future strategies will follow an integrated, three-pronged approach: First, the promotion of EU competitiveness will be further advanced by strengthening the Single Market, supporting a strong and resilient economy, investing in skills, and promoting the EU's research, technology, and industrial base. Sustainable reforms and substantial EU investment appear necessary in this context, while the Recovery and Resilience Facility and cohesion policy will continue to be the main drivers of economic development. Second, protecting the EU's economic security (including supply chain and energy security, physical and cyber security of critical infrastructure, technology leakage, and weaponization of economic dependencies) through a range of existing policies and instruments, as well as considering new measures to address potential gaps. Third, working with the broadest possible range of partners to strengthen economic security and resilience, including by promoting and concluding trade agreements, strengthening the international rules-based economic order and multilateral institutions such as the WTO, and investing in sustainable development through Global Gateway.

This issue of EconPol Forum contains eight articles on how to strengthen Europe's competitiveness and secure its future growth. They not only take a critical look at the main economic and political causes of the EU's declining competitiveness and its consequences for prosperity, but also shed light on the bigger challenges ahead and how future economic policies at the levels of both the EU and its member states should respond to increasing global competition.

Pointing out that the EU's GDP remains at two-thirds of that of the US, but productivity growth has lagged behind since the 1990s, *David Pinkus, Jean Pisani-Ferry, Simone Tagliapietra, Reinhilde Veugelers, Georg Zachmann* and *Jeromin Zettelmeyer* emphasize the EU's two supply-side disadvantages: high energy costs and a fragmented single market. To get a better grip on this problem, they propose a strategy of "Coordination for Competitiveness" – national-level policy coordination as an alternative to full EU-level integration – and illustrate this with two examples: energy policy coordination and an EU Agency for Advanced Research Projects (ARPA).

Frédéric Gonand, Pedro Linares, Andreas Löschel, David Newbery, Karen Pittel, Julio Saavedra and *Georg Zachmann* argue that the EU can only secure its competitiveness in global markets if it decarbonizes its economy and reduces its dependence on energy and raw materials. Postponing policies to decarbonize the energy system will increase long-term welfare losses. They also emphasize that EU energy policy needs to be better coordinated and provide long-term price signals, and that systematic risk assessments and improved data infrastructure are essential to strengthen resilience.

According to *Giuseppe Bertola*, decarbonization and security are desirable goals, but it would be a mistake to believe that protecting and subsidizing domestic manufacturing will reduce its costs. Wars and climate change are bad, and it is even worse when sanctions and environmental policy measures rule out advantageous trade opportunities. Circumstances may necessitate building costly walls around Fortress Europe, but strengthening markets, confidence, and policies within the EU should be the top priority.

Georg Duernecker finds that the structural change toward services has contributed significantly to the slowdown of EU's aggregate productivity growth in recent decades. Future growth is likely to decline further, as sectors with stagnating productivity will increase, including the business services sector, which is predicted to grow rapidly in size but is characterized by sluggish productivity. R&D tax credits, a widely used policy measure in Europe, may not solve Europe's productivity woes due to negative redistributive effects by accelerating structural change toward stagnating sectors.

To boost the EU's productivity, *Fredrik Erixon*, *Oscar Guinea* and *Oscar du Roy* argue that actions to increase innovation and investments in intangible assets and to promote market dynamism are needed. In this context, the EU should (1) increase spending on R&D and better incentivize private sector R&D spending, (2) develop policies to channel savings into business growth and encourage venture capital, and (3) close its technology gap and reduce market fragmentation to support firm growth and technology adoption.

Maria Savona postulates that mastering emerging digital automation technologies, and data in particular, requires a multidisciplinary perspective that includes techno-legal, geopolitical, and economic expertise. Regulating the process of individual and B2B data sharing, either through binding rules or the creation of incentives for exchange, will be an important research and policy agenda in the EU. A "data-haven hypothesis" could explain asymmetries in the concentration of digital infrastructures, whereby countries with stricter data protection, intellectual property, or tax regulations relocate cloud services and data hubs to countries with weaker regulations. The EU's AI law could lead to a new wave of the so-called "Brussels effect," even if it is not yet optimal and requires further discussion and public scrutiny.

Public investment in the EU has been low in recent years, leading to a lack of infrastructure and other public assets that can support economic growth and competitiveness. On the other hand, efforts at the EU level to establish a Sovereignty Fund to boost competitiveness and respond to the US Inflation Reduction Act have been weakened, as have plans to increase funding for the Strategic Technology Platform for Europe. In this context, *Iain Begg* and *Daniel Cicak* propose applying a revived golden rule at both the EU and member state level to improve the quality of public finances and competitiveness: key principles include (1) a more targeted but more open approach to eligible expenditure as opposed to the traditional definitions of investment in national accounting, (2) the scrutiny of government plans by independent financial institutions or similar, and (3) the adoption of a medium-term perspective. They believe that the financing of public goods in the EU should be furthered through the issuance of debt instruments rather than relying on the constrained resources of the EU budget.

According to *Roel Beetsma* and *Marco Buti*, EU economic policies need to be fundamentally reoriented to create European public goods (EPGs). The so-called "genuine" EPGs in the area of the green and digital transitions would be financed by a new fund of around EUR 750 billion, which would be set up as a follow-up to Next Generation EU, and access to it would be conditional on compliance with the revised fiscal rules. In addition, a systematic review of the various existing investment support instruments at the EU level should be carried out and, where feasible, collecting the EU financing instruments into a single facility would substantially improve the market perception of EU debt. In many areas, including defense, the expansion of EPGs requires coordination of national policies rather than additional EU funding.

We hope you enjoy this Policy Debate of the Hour!