New Growth for Europe

As a rule, a prerequisite for an increase in welfare is economic growth. However, growth in the EU has been sluggish for some time now. The recent Intereconomics conference “New Growth for Europe”, held in honour of this journal’s 50th anniversary, was dedicated to this topic. Our intention was to go beyond the traditional question of how to stimulate investment combining the usual set of economic policy instruments. Instead, the current economic problems in the EU could be seen as an opportunity to reflect upon a new approach to growth – one which considers the quality of growth in terms of sustainability and social concerns.

Economists have invested considerable time and resources into researching solutions to Europe’s faltering economic growth. Policymakers throughout Europe have made the revival of economic growth a major point of emphasis, pushing plans that range from fighting government debt to stimulating research and innovation to re-inventing industrial policy. However, the relationship between economic research and economic policy is often characterised by a wide gap caused by unfulfilled expectations on both sides. Hence, a bridge seems necessary to make the results of economic thinking accessible for policymakers and thereby give economic research an opportunity to become relevant for policymaking. Building this bridge has been the mission of Intereconomics for half a century.

Intereconomics has always aimed at providing a space for voices from across the ideological spectrum, including those that were rarely heard in the dominant media or in academic publications, thus enriching the debate with alternative ideas and methodological approaches beyond the usual mainstream arguments. Undoubtedly, the journal has used its role as an independent and neutral platform for economic policy to support open debate, which is essential for solving economic problems with the help of thorough academic analysis. To that end, we hope the papers in this special issue of Intereconomics can inspire policymakers to consider new approaches to restoring economic growth in the EU.

The first paper in the issue, by former EU Commissioner László Andor, identifies three causes of low and falling growth rates in Europe: resource constraints, demand constraints and secular stagnation. While austerity programmes have reduced growth potentials, the measures adopted to stabilise investment have not been sufficiently effective. Structural reforms were supposed to improve competitiveness but have not yet had the desired effects. Andor suggests the establishment of a European fiscal capacity to escape economic and political stagnation.

The paper by Kieran McQuinn and Karl Whelan draws attention to the problem of turning structural reforms into an engine for the reduction of unemployment, higher labour force participation and increased total factor productivity. McQuinn and Whelan find a long-term decline of TFP in Europe since the 1970s, accompanied by low investment. Declining work-age populations will result in continued low growth rates for the coming years. The authors advocate for the adoption of instruments that increase labour force participation and productivity, in particular labour market reform and pension reform.

Mario Pianta’s paper looks at the negative impact of declining public investment on overall demand and – more importantly – on the deplorable state of public infrastructure. This in turn affects the level of productivity needed to give a substantial push to growth. Pianta argues that the Commission’s measures to reduce debt and to establish fiscal stability did not give public investment due attention. The paper ends with an assessment of the Juncker Plan, concluding that the evidence provided so far suggests that the results will remain far below expectations.

Daniel Gros calls for a more active policy towards improving productivity, as neither cheap money nor structural reforms have shown the desired effects thus far. Not surprisingly, Gros points
at a lack of investment as one of the main causes for low growth. Citing a list of growth initiatives launched in the last two decades, he argues that although impressive progress has been made with regard to structural reform, very little of this has turned up in the growth and productivity figures. Gros concludes that more investigation into the causes of the current stagnation is needed before policymakers call for more structural reforms.

Philippe Pochet’s paper identifies various phases of EU labour market policy from 1993 to 2016. Since 2008 the EU has followed a centralised and authoritarian approach, with results that he describes as “catastrophic”. However, in a recent document, Pochet found a surprising new tone: the need for structural reforms is barely mentioned, and competitiveness boards that were set up to keep wage growth low have given way to productivity boards with a more neutral mandate.

Mark Blyth suggests that Brexit presents new options and chances to re-think the concept of Europe as well as its approach to growth. In Blyth’s view, the political disaster of Brexit is closely related to the inability of the EU to develop an agenda for future growth that has something to offer to the working classes, who currently find their cause more resolutely defended by the populist right. In this perspective, the political problem supposedly revealed by Brexit is actually an economic one. As a consequence, Blyth argues for new rules that allow national governments to do for recovery what they deem necessary, despite the rules set by an austerity-preaching Commission.

Debora Revoltella identifies signs of recovery from a low level of investment in many EU states, but the dynamics of growth remain vulnerable. The Commission’s core strategy of making money easily available has failed; however, EU member states are still reluctant to resort to fiscal policy measures to stimulate growth. The EIB’s strategy concentrates on the facilitation of access to credit for high-risk investment, technical assistance for investment projects and structural reforms.

Erik Berglof’s paper examines what industrial policy can do to increase growth in Europe. Drawing on the Neo-Schumpeterian assumption that growth is a product of innovation, he sees Europe as consisting of two groups: the advanced economies where innovation thrives and the countries of Central, Southern and Eastern Europe, which lag behind the first group. Berglof concludes that the EU has a role to play in enacting an industrial policy for Europe, but it must differentiate between the two groups of countries and avoid the capture of institutions by special interests.

Anton Hemerijck asks where the European social investment agenda got lost. While the EU treaties aim at a socially balanced system, crisis management has overruled social investment in the eurozone since 2008. Hemerijck advocates for a new social investment plan as a central pillar of the EU’s growth strategy, concluding that the endangered attractiveness of the Union and the risk of losing the social agenda to right-wing chauvinism should be sufficient incentives for adopting serious measures.

Nauro Campos proposes to focus on two strategies – the interaction between technology and institutions, and the deeper integration of EMU members. He argues that there is an essential difference between “shallow” and “deep” integration, and that only the latter, i.e. integration at the economic and the political level, will generate the promised productivity gains. An essential factor of success for countries joining the EU is institutional change, which comes with deep integration.

The papers in this special issue present several proposals for a new approach to European growth policy. Lessons can be drawn from Brexit and from the failure of structural reforms to trigger substantial growth. The importance of stimulating investment, in particular public investment, is highlighted. A third set of policy conclusions arise from the proposal for a social agenda – one which does not leave social fairness to the whims of market forces. These analyses indicate that reviving growth is more than just an economic issue; there are clear signs that slow and unbalanced economic growth will also lead to severe political problems.