EU leaders must overcome their short-term thinking and reassert what the EU stands for.

by Blog Admin

As the EU's leaders gather in Brussels today to negotiate the EU budget for 2014-2020, **Renaud Thillaye** *argues that a shared and positive vision for the EU is sorely lacking among European leaders. He writes that the more balanced and resilient growth model pursued by the Europe 2020 strategy provides the basis of such a vision beyond deficit reduction targets. This long term perspective is particularly crucial in the Eurozone.*

Despite a relative period of calm, the predicament of the eurozone remains very much the focus of attention in the EU. Failure to agree on a credible roadmap for advancing the four unions (banking, fiscal, economic and political) could prompt another wave of turbulence in the next few months. As if the plate was not full enough, European leaders are at loggerheads over the EU budget. Deciding on the 2014-2020 Multi-annual Financial Framework is proving as divisive as designing a single supervisory mechanism.

In both cases, a shared and positive vision is found wanting. To be sure, any student of the EU knows how much short-term national interests weigh on policy-making in Brussels. No one expects Merkel, Hollande and Cameron to craft a historic compromise by shrinking funding for the Common Agricultural Policy and drawing a line on rebates when public anger against the EU is so high and trust in governments so low. Yet it is precisely at this time that a confident voice is needed to reassert what the EU stands for and what kind of common goods (beyond peace) it should deliver. Such a common vision should be the bedrock of the decisions to come for the Economic and Monetary Union and on the EU budget.

The good news is that the plan exists. Like it or not, the Europe 2020 strategy sketches out a reasonably well articulated vision. Critics were quick to despise this "Lisbon Strategy II" as another exercise in wishful thinking when it was adopted in 2010. Yet it had the merit to put down on a sheet of paper a common direction for the 27 member states, for which EU institutions and governments could be held accountable. For a piece signed off by a majority of centre-right governments, it was strikingly socio-ecological: a more stable and resilient growth model based on a high level of employment, inclusive and innovative societies, less and cleaner energy consumption.

Credit: European Union

Policy Network and Wifo have recently argued in a policy brief that any governance reform and any measure aimed at steering the eurozone out of the crisis should be anchored in this ambition. Not for the sake of the Europe 2020 Strategy, but rather because the current combination of tighter fiscal surveillance and market-based adjustments carries great risks for the long-term prospects of the most concerned countries. It impoverishes people and leaves many of them out of the labour market in the short term, thus making it more difficult for them to catch up. Furthermore, governments are forced to cut public spending at a pace that does not allow for a comprehensive rethink of the state's missions. Deficit reduction targets come at the neglect of improving the quality of spending.

In theory, the new European Semester's procedure allows for greater consistency between fiscal and structural objectives. Each year between November (when the Annual Growth Survey is published) and July (when country-specific recommendations are adopted), the Commission examines governments' fiscal and reform plans. Unsurprisingly, evidence shows that fiscal considerations have taken precedence in the last two years. Restoring a sound fiscal environment seems to be the only way to achieve Europe 2020 targets, which are merely considered as an afterthought.

However, as Frank Vandenbroucke argued recently, a more social Europe is a necessity rather than a luxury. With low levels of mobility and an aversion to excessive flexibility pitting social models against each other, a rebalancing can only come from some form of transfers in the eurozone. Precisely because some countries like Germany fear the slippery slope towards permanent transfer union, more should be done now to prevent divergences from wreaking havoc.

On the one hand, it becomes urgent to address the deflationary bias of current policies and not leave the current situation to rot. The growth pact agreed on in June has been a small step; another significant one is Germany's readiness to tolerate a higher rate of inflation than the euro average and to boost domestic consumption. A permanent macroeconomic stabilisation fund represents a promising idea, but it will take time to come about. At the very least, the EU budget negotiations should avoid scrapping the European Globalisation Adjustment Fund and the European Social Fund, which assume de facto counter-cyclical functions.

On the other hand, structural reforms should not limit themselves to improving cost-competitiveness. A greater focus on long-term assets such as infrastructure (especially IT and energy networks), education and training, research and innovation is the only way toward a more sustainable economic model. Tackling tax evasion and tax competition should become a priority in Europe if governments are to uphold some margin of discretion. The European Investment Bank and EU regional and cohesion funds also have an important role to play for those countries, regions and companies which struggle to access finance and to find a sustainable place in European and global markets.

In the current European turmoil, as in La Fontaine's fable, "to run is nothing; we must timely start". Focusing too much on achieving deficit targets makes us forget about the broader scope we need if we want to reach the finish line.

Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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About the author

Renaud Thillaye – *Policy Network*

Renaud Thillaye is policy researcher at Policy Network and co-author, with Karl Aiginger, Olaf Cramme, Stefan Ederer and Roger Liddle of the policy brief "Reconciling the short and the long run: governance reforms to solve the crisis and beyond".

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