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The Case Against Europe's 2020 Strategy

The European Union's 2020 strategy for growth and competitiveness is deeply flawed, argues Fredrik Erixon in this new Policy Brief from ECIPE. It will push neither economic growth nor pro-growth reforms. There is no point toying with marginal changes of the strategy. It should be put in the bin, and EU leaders should start afresh.

The European Union has set out a new strategy for growth and competitiveness. A successor to the Lisbon agenda, the 2020 strategy aims to usher Europe into an era of smart, sustainable and inclusive growth. The timing of this initiative could hardly be better. In the whirlwind of the new European debt crisis, EU countries need to advance an agenda of pro-growth economic reforms to make any promise of fiscal stabilization credible. There is a limit to fiscal stabilization through cuts in expenditures and tax increases; without higher economic growth it will be tremendously difficult to balance budgets and substantially bring down debt levels in Europe. The European Commission has estimated EU public debt to rise to 120 percent of GDP over the next decade, and behind this rise hides many other factors than current cyclical deficits. Hence, getting EU countries on a new growth trajectory is almost an existential matter.

However, the 2020 strategy is not going to deliver growth or pro-growth reforms. Like its predecessor, it is a confused strategy with conflicting ambitions. Core areas for policy reforms at the European level are missing in the strategy. It does not have a workable format for reform delivery or assessments of what member states achieve. Too many areas of the current strategy, like the new drive towards industrial policy activism, contradict the ambition of growth. In its current form, it will soon be forgotten, if not gone.

At the heart of the strategy is an erroneous notion that Europe is such a unified economy that a central strategy works for all countries. Furthermore, it lives and breathes the sort of pop internationalism that presents economic success in other parts of the world as a threat. Competitiveness – as perceived in the the 2020 strategy – is largely a zero-sum philosophy. It is seen as a problem that other countries increase their share of the world economy while Europe's share is decreasing. Similarly, it is seen as a threat to the EU economy that other countries invest more in research and development than the European average. These notions are silly. Rather than lamenting them, they should be applauded. Expanding economies in other parts of the world give new opportunities for EU firms to increase sales. That underdeveloped regions increase their market shares is good news: they are becoming richer. High R&D investments in other parts of the world mean that EU consumers and producers can get access to new knowledge and innovations without having to pay for the entire bill.

The notion that countries compete neck-to-neck with each other is a dangerous obsession that too often misguides policy. It is a view that may help policymakers to sell political reforms at home; the commercial prowess of other countries can be a source of reform motivation. Hence, it is a perception that may leverage good economic reforms. However, these are theoretical propositions; it is in fact more likely that pop internationalist notions will push irrational economic policies and provoke an overall defensive posture to economic reforms and the global market.

Yet this zero-sum economic mindset informs much of the thinking in the elements of the 2020 strategy that deals with commercial policy. As it has been set out, so far, it is a program that aims at beefing up the competitiveness of the agricultural, industrial (heavy, light and advanced) and services sectors—that is, of all sectors and production in Europe. In the EU's 2020 paradigm that also involves a return to industrial policy activism, the idea that governments can "pick winners" by writing checks to favoured sectors. The profile and extent of the new industrial policy that Europe envisions remain to be seen. The approach, however, is for an industrial policy that is activist and micro-managing, harking back to the disastrous industrial policies of a bygone era.

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