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The Euro-crisis and economic growth

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Beyond the immediate crises, centring on the inability of countries such as Greece, Ireland and Portugal to finance their public debt without EU/IMF support, at the heart of the Euro crisis lies the increasing divergence in economic performance between the core and the periphery, aggravated by current austerity programmes, especially in those countries with long-standing structural reform deficits. For example, the Commission's Spring Forecast shows that the worst growth performance forecast in 2011 and 2012 is for Greece and Portugal[1].

The lack of economic progress in these countries threatens the success of the fiscal sustainability programmes. Unless these countries manage a return to growth, tax revenues will remain low and spending on automatic stabilisers relatively high, implying high deficits even with significant reforms. In addition, low growth (or even contraction) implies a much more difficult task to reduce the debt to GDP ratio.

This has been recognised at EU level, especially with respect to Greece. The Eurozone Summit of 21 July 2011 called for: "a comprehensive strategy for growth and investment in Greece. We welcome the Commission's decision to create a Task Force which will work with the Greek authorities to target the structural funds on competitiveness and growth, job creation and training. We will mobilise EU funds and institutions such as the EIB towards this goal and re-launch the Greek economy"[2].

Concretely, a 'New Deal'[3] based on investment could mobilise growth for the future, with measures such as continuous reforms in the weaker countries to enable productive investment, for example the simplification of administrative procedures and labour-market reform. Productive investment (such as education) should be treated differently in the excessive debt procedure, austerity programmes and fiscal consolidation plans to ensure that the necessary investment into future capacity still take place. In addition, the EU budget (especially cohesion funding) needs to be re-allocated to focus more on combating the crisis and reducing imbalances, as well as a new focus on governance and on spending on core drivers of growth, such as education.

New resources for public investment are also needed, coming from the economically stronger countries in the EU. The establishment of a dedicated investment fund – a new Stability and Growth Fund (SGF) aiming specifically to deliver the goals of Europe's growth strategy, Europe 2020, in countries unable to make the necessary investments themselves – would be needed. Increased use of new loan/private-public partnership instruments, including project bonds, could help to increase leverage of this funding.

[1] http://ec.europa.eu/economy_finance/eu/forecasts/2011_spring/statistical_en.pdf.

[2] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/123978.pdf.

[3] Please see http://www.epc.eu/documents/uploads/pub_1277_a_new_deal_to_help_save_the_euro.pdf for further details on this 'New Deal'.

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But addressing divergence in the Eurozone will not be enough to solve the EU's economic challenges. The EU is also facing long term challenges including the rise of new competitors globally and demo graphic change. To counteract or at least slow the relative decline of the EU and to ensure the sustainability of Europe's economic and social model(s), it is crucial to modernise Europe's economies. Here, the Europe 2020 strategy[4] can be a starting point to indicate the kind of economic change which is required, focusing on innovation, education and labour market participation, as well as climate change and measures against poverty.

While structural reform, fiscal consolidation and public investments are all needed, crucially achieving the objectives of Europe 2020 will require private investment, especially to create the networks which are needed: smart transport and energy networks and next generation broadband. The key actions which are required at the EU level should aim to create the framework which enables this investment as well as creating a market for innovation. This means driving forward the Single Market as the key instrument for future economic growth in areas such as the Digital Single Market, a Single European Labour Market, a single market for energy and health and a market for innovative products and services, for example in the area of eco-innovation. While there are policy initiatives in this area[5], in part arising from the Europe 2020 strategy, a more ambitious re-launch of the Single Market is still required to change Europe's long term growth performance.

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[4] http://europa.eu/press_room/pdf/complet_en_barroso___007_-_europe_2020_-_en_version.pdf.

[5] See for example http://ec.europa.eu/internal_market/smact/docs/20110413-communication_en.pdf or http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0245:FIN:EN:PDF.