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GETTING EUROPE MOVING TOGETHER

Final report

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Getting Europe Moving Together

Executive Summary

This report starts from the assumption that in a highly competitive and rapidly changing world, European states will be better able to maintain their high living standards and remain internationally competitive, if they act with regional cooperation and coordination in their economic and industrial policies. In all the areas considered, the report identifies barriers to economic progress and specific actions that could bring significant and much needed benefits. The main conclusions and recommendations that have been developed over a year of research and discussion with leading experts are:

Politicians have not shown leadership, they have been too nationalistic and have failed to articulate and explain the significant economic advantages to be obtained by the EU operating as a cohesive economic bloc.

Progress towards a European single market has been significant and the economic and political benefits have been large. There are, however, more steps to be taken and these will bring further important benefits.

Europe is still a globally competitive region but this position is under threat and actions are needed to invest in infrastructure, skills and the reduction of internal trade barriers.

Europe has innovative strengths but is not as technologically innovative as the United States. This may improve as the single market develops further but there are also measures that can be taken now to help the EU and member states become more innovative, and to encourage the development of a more entrepreneurial culture.

EU trade performance overall is good but could be improved by a focus on helping SMEs to trade internationally, and by cooperative marketing of the EU by member states.

Since 2010, the EU and many member states have neglected their key

assets, namely well trained and educated workers, as they have pursued policies to achieve balanced budgets by cutting government expenditure. This has not led to growth or increased international competitiveness and needs to be reversed to focus on modern industrial strategies that build on EU strengths in the production of high value goods and services.

The leading EU economy, Germany, has a thriving SME sector and there would be great benefits if the whole of the EU attached a higher priority to developing and sustaining SMEs by means of finance, training and skills, and an appropriate level of regulation.

In the areas of fiscal and macroeconomic coordination, European debate and actions appear to have been dominated by fears of failure rather than determination to achieve success and reap its rewards. Recent developments concerning the ECB are showing promise but need stronger backing from national politicians.

In financial services, progress has been made towards banking union but insufficient effort has been made to communicate the benefits this would bring. Similarly, in retail financial services there is insufficient focus on the benefits that would flow from completing the single market in retail and SME banking services.

These conclusions and the actions recommended to address them represent concrete and significant steps that could be taken to get Europe moving together and gain associated economic benefits.

Getting Europe Moving Together

Final report

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Getting Europe Moving Together

Section 1 - Introduction

With the aim of identifying constructive ways to develop European prosperity, the Federal Trust, the Industry Forum and the Global Policy Institute, financially supported by the European Commission Representation in London, have been running this year, 2012, a project entitled "Getting Europe Moving Together". Its aim was to review a range of economic, political and social factors bearing on the prospects for the European economy in the coming decade. The organisers established a small project team and also drew upon their own internal experts and specialists.

In the first stage of the project, key topics selected by the European Commission were analysed and discussed by researchers to help understand the factors that need to be addressed to facilitate cooperation and economic progress. The output of this stage of work is included in section 2.

These topics and the over-riding issue of European leadership were then addressed at a major conference that took place in London on 16th October and was attended by some eighty delegates drawn from business, politics, academia and the media. A summary of the discussions and conclusions is included in section 3.

Delegates at the conference were invited to submit their own views through a detailed questionnaire. The results of this exercise are given in section 4. Drawing upon the first three stages of work, the project team then produced a draft set of conclusions and recommendations that were discussed at a workshop on 21st November 2012. The final conclusions and recommendations are set out in section 5. These should be regarded as the output of the project rather than necessarily the views of the organisers or of the European Commission.

Section 2 - The key issues

Introduction

This section is based upon initial desk research and discussion by the research team. It was distributed as a briefing paper to potential conference speakers and other experts early in the project. It sets out preliminary views of the key issues that are holding up progress towards a more dynamic and integrated EU economy, and suggests some solutions for further discussion and analysis:

Completing the single market and structural reform

Competitiveness

Innovation

Trade

People, jobs and social impact

SMEs, regulation and access to finance

Fiscal and macroeconomic coordination

Financial services

1 - Completing the single market and structural reform

A central element of the current proposals for a European "fiscal union" is that of economic reform in the under-performing economies of the Eurozone. The timing, structure and political context of this process generate controversial questions that cannot and should not be ignored.

A difficult economic background

Reform seems likely over the coming years to take place within a context of low aggregate demand within Europe. This creates the risk that implemented reforms will simply ensure that present levels of aggregate economic activity are achieved by fewer participants in the labour force. This is a recipe for increased unemployment, particularly among the young and under-qualified.

Short term pain for long term gain

Structural reform is by its nature a drawn-out process, both in its realization

and its production of demonstrable economic benefits. Many over-optimistic hopes were invested in the original programme for the single European market as a promoter of economic reform. The hope of economic progress in the distant future must be set against the certainty of economic pain now.

An unfavourable political context

The political circumstances in which painful economic reforms are taking place in certain countries of the Eurozone are extremely volatile. The crisis of the Eurozone has undoubtedly created a political context within which national politicians can plausibly argue that reform is more urgently necessary than ever. On the other hand, they run the risk of being accused of undue subservience to political pressure coming from others in the European Union.

The international dimension

It is at least questionable whether economic reforms in Europe, however profound, will ever be able to guarantee European competitiveness in most spheres of economic activity with such emerging economies as China and India. This would involve at the very least a dramatic and universal restructuring of all European economies which seems only very patchily in prospect.

Competitiveness and solidarity

The rhetoric of economic reform is sometimes employed by those who use it primarily as a bulwark against those politicians or governments arguing for a greater mutualisation of obligations within the Eurozone. This clear political motivation must cast doubt upon the validity, or at least the completeness of the underlying economic analysis in the agenda of structural economic reform.

Conclusion

Structural reform, encouraged by the deepening of the single European market, can undoubtedly make a contribution to a more stable and productive European future. But unless appropriate economic and social policies can be developed in parallel to reflect the difficulties of timing, political acceptability and social dislocation inherent in structural reform, it will be at best a partial and perhaps even a damaging agenda for the Eurozone.

2 – Competitiveness

In an increasingly globalised economy and in the context of a shifting global balance of economic power from West to East, it is crucial not only to maintain, but continuously enhance competitiveness in order to assure future economic growth and a high standard of living in Europe. Key issues in order to do achieve this are:

Investment in infrastructure, innovation and renewables

Modernising infrastructure, i.e. pan-European transport corridors including railways, roads, ports and airports, energy grids, pipelines and broadband networks will be key to increasing competitiveness. This is increasingly recognised by the EU, which has recently unveiled a 'Connecting Europe' plan to address this matter. Meanwhile, EU-coordinated strategies and investment in research and innovation and in the key new markets of the future, especially in renewable energy, but also information technology, is crucial to guaranteeing a long-term competitive advantage and attracting foreign direct investment.

Protecting Intellectual Property Rights

The European Union's main competitive advantage is in upmarket products as well as high-tech and mid-tech goods. Therefore, protecting intellectual property rights and preventing counterfeiting is of crucial importance to maintaining this advantage. One mechanism through which this can be ensured is the Anti-Counterfeiting Trade Agreement (ACTA) initiative and global IPR agreements through the WTO more generally, for the enforcement of which the EU in cooperation with the US should push harder.

Ending austerity across Europe

In the context of the ongoing European sovereign debt crisis, governments across Europe have adopted biting austerity policies to cut the deficits that instead of spurring growth have stifled it further. The guiding principle should not be to cut public spending per se, but to support innovation and efficiency by smart and long-term investments instead. An ideological commitment to public sector spending cuts obstructs a more meaningful debate over this issue and should therefore be avoided.

Education

Enhancing education and skills are crucial to increasing competitiveness and more needs to be done, especially in light of current austerity policies

and increasing global competition to maintain sufficient funding and investment in especially Higher Education.

Conclusion

Europe appears to suffer from an inferiority complex that it cannot match BRIC growth rates and manage its public sector debt. European economies have however shown a long history of adaptability and the capability to produce high quality goods and services. If Europe holds its nerve and concentrates on preserving and enhancing these strengths, by measures such as those listed above, there is no reason why it should not remain highly competitive.

3 - Innovation

Innovation that enhances productivity is widely thought to have complex causes involving new technologies and new processes. It is a widely held view that the EU economy does not display the same level of innovation as the US economy. Key factors include:

Promoting competition

Large incumbent players often use market power to resist innovation. New players need to innovate to compete effectively. Innovation is likely to involve 'creative destruction' which will cause disruption but also yield benefits. Therefore states that wish to promote innovation should ensure that competition laws and other policies do not protect the status quo.

Encouraging new firms

As noted above, small firms have a need to innovate. Hence, policies that encourage new firms will also stimulate innovation. What is needed, therefore, are measures to aid the establishment and development of small firms. These include: straightforward means of forming companies, employing staff, paying taxes and selling goods and services. Appropriate finance and banking facilities are important, as is non-discriminatory public procurement.

An entrepreneurial culture

For innovation to lead to financial success it is useful to have an entrepreneurial culture. This is hard to define but examples that are widely quoted include the US and Israel. Some features of an entrepreneurial culture include: a group of successful venture capital firms, tax incentives to

investors, large rewards for success and little stigma associated with failure.

Education

So-called STEM subjects (science, technology, engineering and maths) are important facilitators of innovation. It is therefore essential that these are taught well. Emphasising, during education, the value of business and innovation can also contribute to building an entrepreneurial culture.

Skills

In addition to education, innovators need skills training and access to other people with technical, design, financial and communications skills if they are to succeed. This entails training and apprenticeship schemes in which governments and private firms work together.

Technology diffusion

Most innovation involves the use of research or technologies that have been developed elsewhere. This is why good intellectual property laws and open access to cross-border procurement of technology are important facilitators. It is also the reason why national R&D is relatively less important than technology diffusion.

Conclusion

EU states are not universally good at addressing these factors. Coordinated, cross-border policies are needed to encourage the exchange of ideas and help improve innovation within the EU.

4 - Trade

Trade is a vital ingredient in ensuring growth, fiscal sustainability, and in providing jobs. Progress in world trade liberalisation has, however, stalled, and is unlikely to resume in the near- to mid-term. Emphasis has been put by some member states on direct bilateral targeting of the rapidly growing BRIC nations. In the short to medium term, however, it is clear that intra-EU trade will continue to be a major factor in the overall trading activities of the member states. Thus, EU cooperation to help overcome the economic problems of individual member states will help the EU as a whole. Some of the key steps for Europe to increase its internal and external trade include:

Increasing aggregate demand

An easily identified obstacle preventing individual EU member states from increasing their exports, both to other member states and to states outside of the EU, has been sluggish aggregate demand growth. The obvious candidates that could do much in this respect are Germany, China and to a lesser extent Japan, which by raising salaries and in the case of China establishing more of a social safety net, would increase disposable total income in the global economy. Finding solutions to the sovereign debt problems of some member states will also help to raise aggregate demand.

Relaxing export controls on dual-use goods

Europe has stringent rules in place that limit the export of so called dual-use goods, especially to certain countries deemed potential aggressors. This regime could possibly be relaxed, with regard to what items and goods are included in this category as well as with regard to which countries are identified as problem countries.

Unilateral trade liberalisation

Europe needs unilaterally to abolish its dangerous import tariffs, particularly on agricultural products. Existing barriers to imports increase the 'opportunity cost' of production, diverting resources from areas where Europe has a competitive advantage (especially in upmarket products) to areas where it has a clear disadvantage, while also raising costs for consumers. Removing import barriers, especially on agricultural products, unilaterally would in addition show leadership by example, possibly even contributing to ending the deadlock in the Doha Round.

Advancing Bilateral Free Trade Agreements and Regulatory Cooperation

Bilateral and inter-regional WTO-plus free trade agreements increase trade a great deal in their own right while contributing to advancing global trade liberalisation. The EU has signed various free trade agreements with external trading partners since the late 1990s, but has to do significantly more to encourage free trade agreements and/or regulatory cooperation with key strategic players such as China, India, Brazil, Russia, Japan and the USA, as well as with other regional groupings such as ASEAN or ASEAN+3, and Mercosur.

Deepening regional integration in production

Following the example of East Asia, Europe should further deepen regional integration of production systems. European export powerhouses such as Germany in particular should make even better use of cost differentials in new member states, importing intermediate goods from suppliers in these states, which would increase segmentation of production, reduce costs, increase efficiency and enhance productivity growth.

Conclusion

Internal and external trade needs to be given even greater priority within the EU. The extent to which EU economic success depends on internal cohesion and cooperation within the whole EU needs to be the subject of detailed analysis and politicians and the general public won over to the conclusions arising from this analysis.

5 – People, jobs and social impact

Highly motivated, positive and proactive societies are key for Europe to compete and succeed in this highly competitive and changing world. Lack of opportunities and difficult living conditions result in a vicious circle of distress, pessimism for the future, lethargy and other social ills. Providing jobs and adequate wages as well as a better work-life balance are crucial in this regard. Key factors include:

Regulation

Government regulation has too often favoured the interests of big corporations and the financial sector instead of society at large. Borrowing an idea from Barack Obama's latest State of the Union address, the emphasis of government regulation could change from rewarding corporations that outsource jobs and conduct business abroad to those that invest at home by granting them tax cuts and government support.

Education

Albeit stark differences exist between educational systems in EU member states, generally, the EU and national governments have to do better to prepare young people for entering in the job market. Enhancing efforts at compulsory internships for secondary and A-level students (and the equivalent in other countries) as well as regular training for teachers with

regard to changes in the marketplace and the global economy would do much to alleviate the problem.

Job creation programmes

There is a multitude of initiatives, support websites, training and re-employment opportunities and help available, on the national as well as EU level, but seldom are the majority of people aware of these initiatives and sources of information. Information pooling, maybe through European websites that bundle national information concerning specific sectors would be a good way forward. Cooperation with schools, universities and local job centres might also result in spreading this information more widely and encourage the type of labour mobility for which the US is famous.

Entrepreneurship

A fundamental difference between the US and Europe is that entrepreneurship is far more widespread and encouraged in the US than in Europe. Aside from the stigma often attached to entrepreneurship in Europe in general, and risk-averseness in particular, it is also too difficult for business start-ups in Europe to obtain the necessary capital and other support to survive. Government should thus cooperate with and encourage venture capitalists and other investors that seek to support start-ups and make more seed funding available to them.

Conclusion

If the EU and national governments started to give as much emphasis to employment and the development of human capital as it does to financial matters, there would be substantial benefits for long-term economic performance.

6 – SMEs, regulation and access to finance

Small and medium-sized enterprises (SMEs) play a key role in the success of national economies. The sector is a major employer, and a major source of innovation and training. The extent to which SMEs are supported and encouraged, however, varies significantly between member states. Key factors include:

Finance

SMEs normally find it harder to obtain bank credit than larger companies. Usually, credit is only advanced against fixed business assets or property of the owners. Improved credit assessment approaches could help stimulate and sustain SMEs.

Business cycles

Business cycles in wholesale banking can have a large effect on small business banking customers. This has been the case following the recent credit crunch and has led to problems for businesses with previously sound finances. Finding the right approach to selective counter-cyclical credit easing could thus benefit member state economies.

Tax and regulation

Tax and regulation can disproportionately affect small firms that cannot afford specialist advisers or specialist staff. A balance therefore has to be struck on levels of revenue and compliance that are consistent with healthy business activity.

Legal framework

Safe and easy commerce depends on a sound legal framework covering ownership, contracts, intellectual property and disputes.

Education and training

Traditionally secondary education has not covered the type of skills needed to run a small business. Thus SME entrepreneurs are often self-taught. The greater availability of suitable training could yield worthwhile economic benefits.

Marketing

Marketing and selling for all companies, including SMEs, has increasingly moved to the internet. Although some of the equipment and skills needed are widespread, SMEs can be handicapped by access to low capacity broadband and by lack of understanding of techniques like search marketing.

Culture

Cultural attitudes towards business vary between member states. The development of cultural attitudes that value business would improve economic performance.

Conclusion

EU states have no standard approach to these factors. Coordinated, cross-border policies could improve the performance of SMEs within the EU. Such measures should therefore be a priority as the EU strives to operate efficiently and competitively.

7 – Fiscal and macroeconomic coordination

Between 2008 and 2010, the world's leading economies were able to coordinate their economic policies in order to avoid the worst consequences of global financial dislocation. A range of unresolved questions and challenges remain however for the Eurozone and the entire EU economy, both in the short and longer term.

Sovereign indebtedness

In order to avoid financial catastrophe after the bankruptcy of Lehman Brothers, almost all the governments of the developed world significantly increased their public indebtedness. It has become increasingly difficult to pursue this policy, as lenders begin to fear the hitherto unconsidered possibility of sovereign defaults, particularly within the Eurozone. The need to combat this fear by reducing indebtedness has imposed new constraints upon economies that have not yet fully recovered from the global financial crisis.

The global financial system

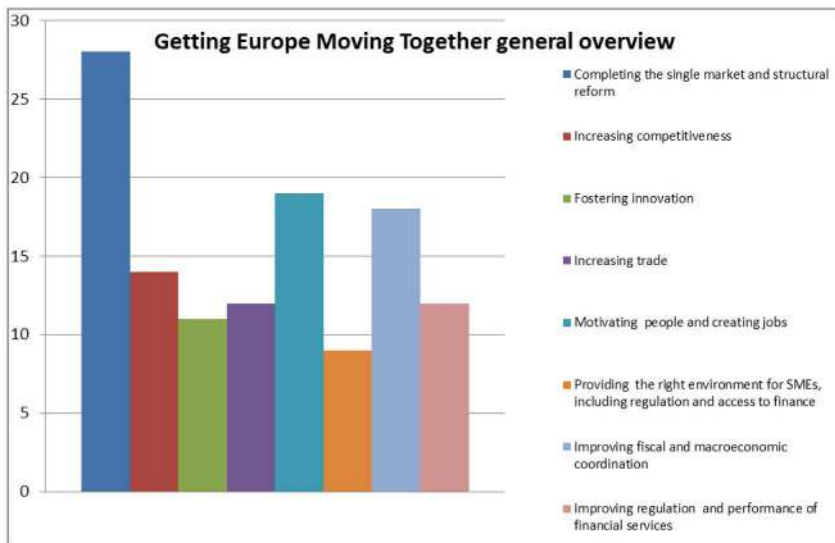
Intimately linked to the crisis of sovereign indebtedness is the continuing fragility of the global financial system. The need to support financially ailing banks central to national economies has been an important reason for the increase in sovereign indebtedness. Moreover, sovereign defaults would have consequences for the global financial system at large, and not merely in the defaulting country. The unwillingness of banks to lend to other than the safest possible borrowers acts as an inevitable check on economic growth.

The stability of the Eurozone

Although much has changed for the better since the beginning of the sovereign debt crisis in early 2010, the governance structures of the Eurozone still need improvement to create confidence that they can prevent, or even manage the eventuality of a national sovereign default. The Eurozone's political leaders have been until now unable definitively to reverse in global markets the self-perpetuating cycle of scepticism as to their will and ability to make the institutional and financial changes necessary to stabilize the single currency area.

Section 4 – The views of the delegates

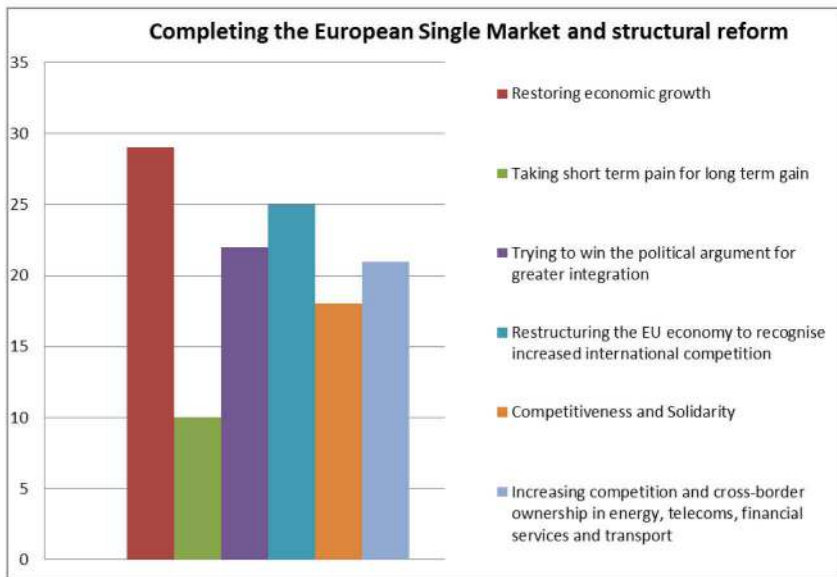
See page 27



Getting Europe Moving Together	Votes	Percentage	Rank
Completing the Single Market	28	23%	1
Increasing competitiveness	14	11%	
Fostering innovation	11	9%	
Increasing trade	12	10%	
Motivating people and creating jobs	19	15%	2
Providing the right environment for SMEs	9	7%	
Improving fiscal and macroeconomic coordination	18	15%	3
Improving regulation and performance	12	10%	
Total votes	123	100%	

Delegate Comments and Recommendations:

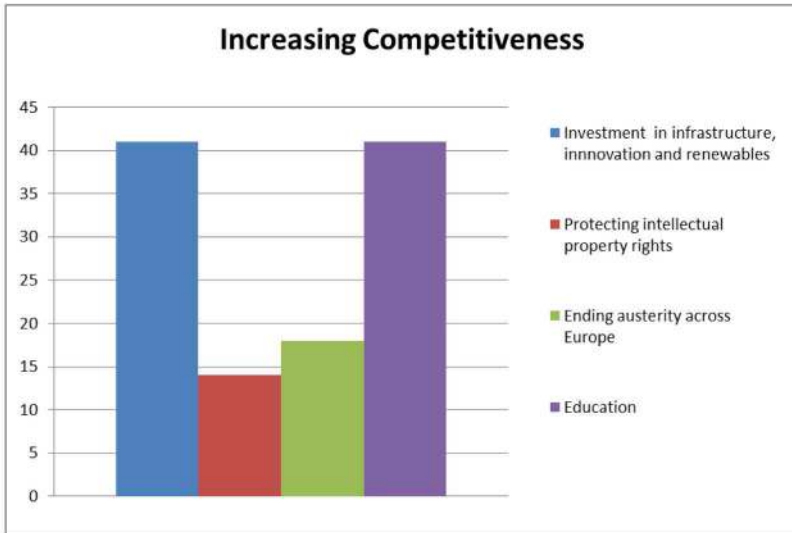
- 'Reduce the tax burden to SMEs';
- 'Improve the debate across Europe on the values and benefits of the EU';
- 'On macroeconomic coordination, we need a more federal approach, with greater consent from the peoples of Europe'.



Completing the European Single Market and structural reform	Votes	Percentage	Rank
Restoring economic growth	29	23%	1
Taking short term pain for long term gain	10	8%	
Try to win the political argument for greater integration	22	18%	3
Restructuring the EU economy	25	20%	2
Competitiveness and Solidarity	18	14%	
Increasing Competition and cross-border ownership	21	17%	
Total votes	125	100%	

Delegate Comments and Recommendations:

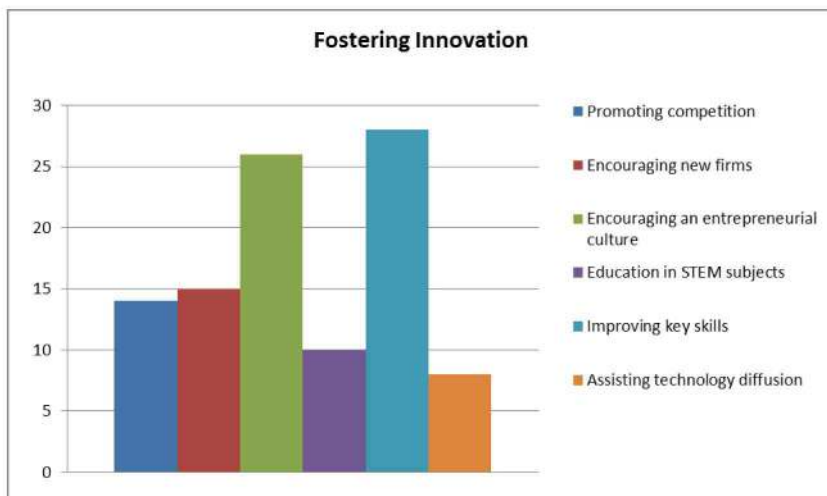
- 'Increasing competition would show the benefits of the single market to its citizens';
- 'A greater focus on the 'green' economy is needed in order to restructure the European single market in a sustainable manner'.



Increasing Competitiveness	Votes	Percentage	Rank
Investment in infrastructure, innovation and renewables	41	36%	1
Protecting intellectual property rights	14	12%	
Ending austerity across Europe	18	16%	3
Education	41	36%	1
Total votes	114	100%	

Delegate Comments and Recommendations:

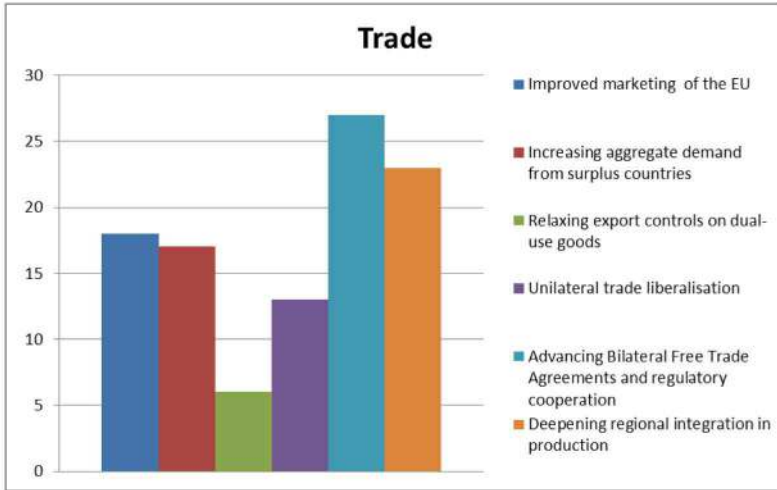
- 'Education - should also include training in skills, crafts, creative activities, arts and culture'
- 'The structure of workplace decision-making should include increased consultation between trade unions and employers'



Fostering innovation	Votes	Percentage	Rank
Promoting competition	19	15%	
Encouraging new firms	20	16%	3
Encouraging an entrepreneurial culture	27	22%	2
Education in STEM subjects	12	10%	
Improving key skills	35	28%	1
Assisting technology diffusion	12	10%	
Total votes	125	100%	

Delegate Comments and Recommendations:

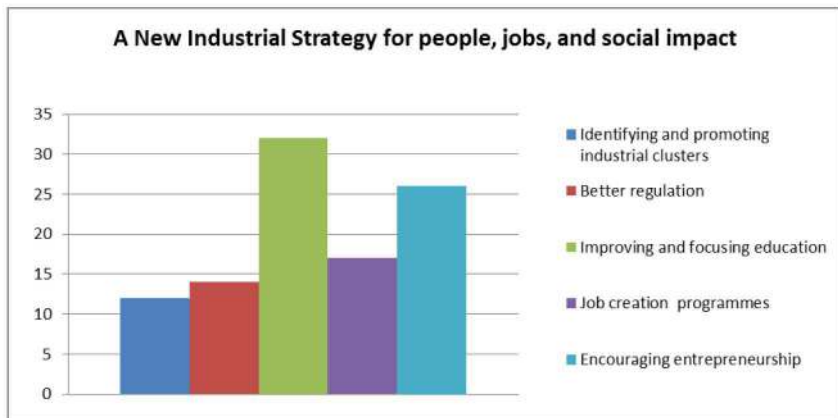
- 'I suggest increasing education in innovative business strategies (eg an MBA in sustainability)'
- 'Much wider roll-out of broadband as soon as possible and 4G'



Trade	Votes	Percentage	Rank
Improved marketing of the EU	18	17%	
Increasing aggregate demand from surplus countries	17	16%	3
Relaxing export controls and dual -use goods	6	6%	
Unilateral trade liberalisation	13	13%	
Advancing Bilateral Free Trade Agreements and Regulatory cooperation	27	26%	1
Deepening regional integration in production	23	22%	2
Total votes	104	100%	

Delegate Comments and Recommendations:

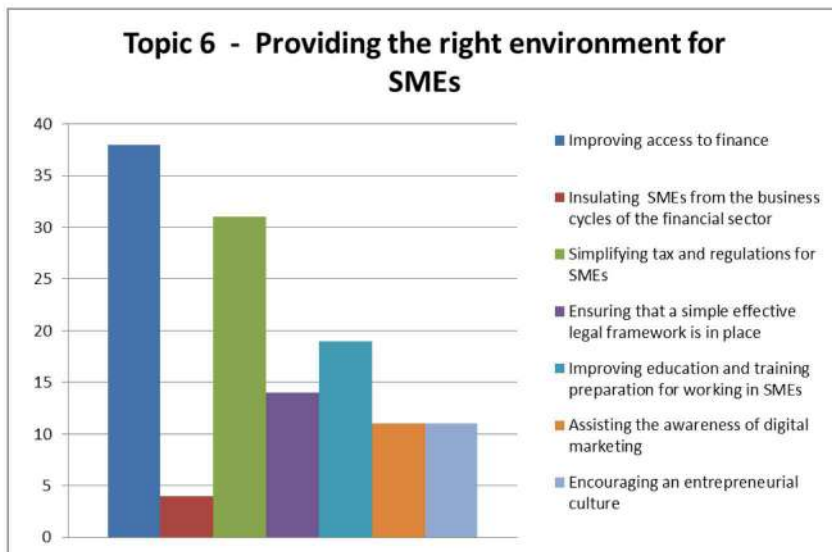
- 'Make more use of rail for long haul with easier paperwork and border controls'
- 'Kick the WTO with all the EU's strength'



A New EU Industrial Strategy for people, jobs and social impact	Votes	Percentage	Rank
Identifying and promoting industrial clusters	15	13%	
Better regulation	16	14%	
Improving and focusing education	32	28%	1
Job creation programmes	22	19%	3
Encouraging entrepreneurship	28	25%	2
Total votes	113	100%	

Delegate Comments and Recommendations:

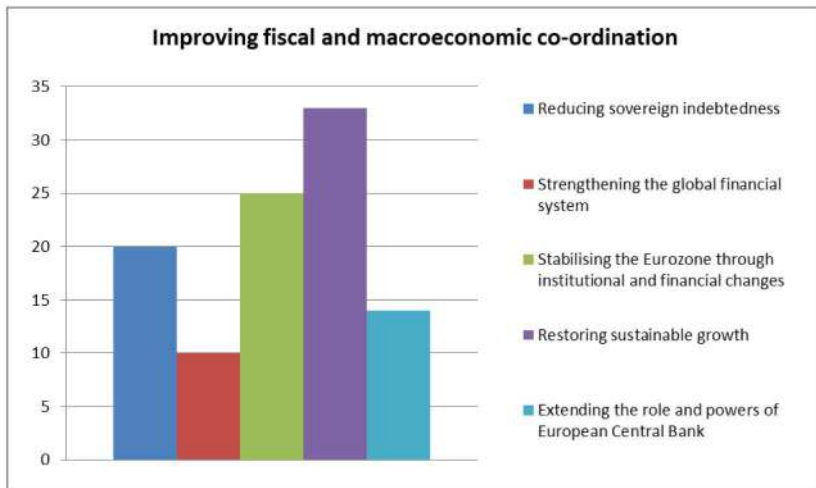
- 'Decreasing bureaucratisation, increasing the quality of legislation'
- 'A British Strategy for engaging with EU jobs and growth policies'



Providing the right environment for SMEs	Votes	Percentage	Rank
Improving access to finance	38	30%	1
Insulating SMEs from the business cycles of the financial sector	4	3%	
Simplifying tax and regulations for SMEs	31	24%	2
Ensuring that a simple effective legal framework is in place	14	11%	
Improving education and training preparation for working in SMEs	19	15%	3
Assisting the awareness of digital marketing	11	9%	
Encouraging an entrepreneurial culture	11	9%	
Total votes	128	100%	

Delegate Comments and Recommendations:

There were no additional comments on this topic.



Improving fiscal and macroeconomic co-ordination	Votes	Percentage	Rank
Reducing sovereign indebtedness	21	18%	3
Strengthening the global financial system	16	13%	
Stabilising the Eurozone through institutional and financial changes	32	27%	2
Restoring sustainable growth	33	28%	1
Extending the role and powers of European Central Bank	18	15%	
Total votes	120	100%	

Delegate Comments and Recommendations:

- 'Global regulation of finance'
- 'Integrate the Eurozone, define clear terms for control and liability'

Sustainable growth

Commenting on its downgrading of the French credit rating, Standard and Poors expressed its concerns about the capacity of the French state to generate the growth necessary to ensure the servicing of its public debt. There are certainly risks inherent in an excessively rapid reduction of the outstanding stock of national debt. Such a reduction can all too easily lead to the reduction of current growth, particularly if this process of debt repayment takes place throughout a highly economically integrated area such as the Eurozone.

Role of the European Central Bank

The ECB does not have the central banking powers of the Federal Reserve or the Bank of England. Public and transparent assumption by the European Central Bank of the role of “lender of last resort” and the issuance of European bonds would do much rapidly to restore the credibility of the single European currency internationally.

Conclusion

A particular responsibility now devolves upon the countries of the Eurozone. There can be no co-ordinated approach to the challenges depicted above without a more coherent response from them. That these steps have not been taken is a decision dictated by national politics rather than by economic necessity.

8 - Financial services

The aim of the integration of financial markets is to improve the efficiency of the allocation of capital and thus improve long-term economic performance. The European Union has established a legislative framework geared to strengthening the financial services sector, in particular in order to improve the performance of financial operators and boost liquidity, competition and financial stability.

Financial services policy covers three main sectors: the banking system, insurance and securities. Apart from laying down rules for operators and investors (banks, insurance and securities), the Union also plans to give greater protection to consumers in specific areas such as retail financial services. The EU already has many world-class financial services companies. The key to using these as a foundation for improving the economic performance of the Union may lie in addressing individual components of the EU financial services industry.

Retail banking

Overall, the EU has advanced but not homogenous retail banking services. These are well integrated with money transmission systems, and personal Internet-based payment and credit systems. Increased competition in banking across the EU could have beneficial effects by making some markets more efficient.

SME banking

Credit provision to SMEs varies across the EU and depends in each state on business culture and government policy. In some states, for example, Germany, there is a strong SME sector that is well supported by the banking sector. There may thus be scope for cross-border education and services to improve support to SMEs.

Wholesale banking and investment

The EU has world-leading wholesale banking and investment services available from a number of financial centres led by London. These services are of undoubted benefit to corporations and governments. The downside of heavy dependence on the financial sector has however been demonstrated by the recent credit crisis. The aim of much new regulatory activity has been to avoid such future problems. It is possible that a financial sector that included greater proportions of co-operative or mutually owned financial institutions could help to insulate the real economy from the difficulties of the financial sector.

Pensions

EU states have a variety of pension arrangements provided by member states and private employers. It is possible that changes could facilitate more mobility of workers and hence greater economic efficiency.

Regulation

The EU has a sophisticated and evolving regulatory framework aimed at reducing risks from financial market excesses, crime, and international terrorism. There may be scope for reducing the impact of these regulations on the activities of SMEs and retail customers.

Conclusion

EU states vary considerably in the financial services available. Currently, regulatory activity is aimed at avoiding problems. For the future, measures to build on, or extend, the strengths of EU financial services could bring significant benefits.

Section 3 – Conference Summary

The main project conference took place in London on 16th October and was attended by around eighty delegates drawn from business, politics, academia, and the media. Four topics dominated the conference, namely leadership; the future of the euro; measures necessary to enhance British and European economic performance; and general global macroeconomic and fiscal issues.

After welcoming remarks by Mark English from the European Commission, and under the chairmanship of Brendan Donnelly of the Federal Trust, the opening session was devoted to the question of leadership, in Britain and in the European Union more generally. The three speakers, Peter Sutherland, Lord Dykes and Emma Reynolds MP all expressed concern that European leaders, particularly those in Britain, were presenting a simplistic and one-sided view of the European Union to their electors. In the past five years, Europe had been part of a global banking crisis, which had affected different countries in different ways. It was irrational to blame the European Union for the global banking crisis, or to criticize the Union for its inability to prevent all the negative effects of the banking crisis in Europe. By maintaining the internal European market and currency stability within the Eurozone, the European Union had certainly helped to cushion the damaging implications of the crisis for the economic life of its citizens. But even within the Eurozone, dangerous divisions were opening up, with national leaders only too willing to blame others for their domestic economic difficulties. Within a single currency zone, such claims could have little validity, since the successes and failures of all members in the Eurozone were tightly interconnected. The panel recognized the difficulty caused to national politicians such as Mrs. Merkel by the evolution of the Eurozone's crisis and accepted that progress was being made in resolving the Eurozone's problems. More determined and persuasive leadership within the Eurozone was necessary however to ensure that this progress would be maintained in coming years. The panel regretted the unlikelihood of the United Kingdom's contributing to or participating in this progress for the foreseeable future. The panel believed that both the United Kingdom and the rest of Europe would be the losers from this situation.

In the second session of the conference, a representative of the European Commission in London, Christian Krappitz, reported on steps being taken to complete the single European market, a major present preoccupation of the Commission. Despite the difficulties caused by global financial

turbulence and the crisis of the Eurozone, the single European market had survived the economic hurricane of the past five years largely intact. There was however much still to be done in such areas as patent protection, retail banking and professional qualifications. The Commission would continue to make proposals in all these areas, but the member states in the Council of Ministers must make their contribution as well by being willing to compromise in the general interest.

While other panellists and questioners welcomed the commitment of the Commission to the single market, a number of them also raised broader questions which they believed needed to be resolved for the European single market to function efficiently. Quite apart from the uncertainties affecting the governance of the Eurozone, the often-cited need for "structural reform" was a contentious issue within the European Union, with some countries seeing it as an essential path to future prosperity and others seeing it as an alibi put forward by richer countries in the Union for their unwillingness to help substantially their poorer neighbours. "Structural reform" seems likely over the coming years to take place within a context of low aggregate demand within Europe. This creates the risk that implemented reforms will simply ensure that present levels of aggregate economic activity are achieved by fewer participants in the labour force, a recipe for increased unemployment, particularly among the young and under-qualified.

This last point was also taken up by Vicky Pryce of FTI Consulting, who cast considerable doubt upon the popular argument that a number of countries within the Eurozone, particularly Greece, would be able to regain competitiveness within the Eurozone area by programmes of ever more demanding austerity. These programmes were more likely simply to result in economic dislocation within the now uncompetitive countries, the reduction of economic activity throughout the Eurozone and an unwillingness to invest in the modern machinery and skills necessary to improve competitiveness. It was certainly true that in Greece and elsewhere economic reforms were urgently needed to improve competitiveness. But generalized austerity would make it more rather than less difficult to bring these reforms about. Present policies within the Eurozone had no chance of making Greece (or probably other countries either) competitive with Germany. It was an entirely open question whether Greece would be prepared to continue tolerating the unemployment and dramatic reduction of prosperity it had suffered over the past three years in

the Eurozone, or whether it would wish to take the desperate step of leaving the Eurozone, with all the uncertainties that implied.

The former MP and Treasury Minister, Kitty Ussher, cast doubt upon the usefulness of the concept of an “optimal currency area”. She was more sanguine than Vicky Pryce about the Eurozone’s capacity over time to develop organizational structures that correspond to its specific needs and possibilities. She also spoke about the need to foster innovation by means of reducing trade barriers and organisational improvements. She emphasised the vital role of governments in acting as ‘entrepreneurial states’, providing the right conditions for innovation. She pointed out the, often unrecognised, role of the state in patiently encouraging early stage research and development and cited examples of the semiconductor, the Internet and the Google search algorithms. The Labour peer Lord Liddle warned against the risk that counter-productive negotiating tactics by the United Kingdom might limit British capacity to shape the changing European political and economic environment over the coming decade. He pointed out that Britain’s position outside the Eurozone in any case limited the Government’s room for manoeuvre and that the present Government’s rhetoric and apparent policies risked reducing yet further its contribution to the future development of the EU.

Not all of the conference was devoted to high politics. The first session in the afternoon was chaired by Rod Dowler of the Industry Forum and was devoted to practical questions essential for Britain’s and indeed Europe’s capacity to keep its economic edge in the changing global environment. Peter Bishop, from the London Chamber of Commerce, outlined his views about trade and the need to strengthen the efforts of the SME sector by, for example, helping to open up markets. He mentioned a number of practical measures for the UK including helping diplomats to understand business better, and addressing problems relating to broadband access, visas and airport capacity. Tim Page, from the TUC, outlined how laissez-faire economics had led to problems in the financial sector that were now having a bad effect on employment numbers and the quality of jobs available. He proposed a more constructive industrial policy aiming, for the UK and the EU, at high quality jobs sustained by a focus on market areas with a high growth potential and in which we have already some established competitive advantage such as skilled labour or relevant academic research institutions. As examples, he mentioned aerospace, automotive industries, pharmaceuticals and green technology. David Caro, from the European Small Business Alliance made points about SMEs

needing less regulation and also gave some detailed ideas on how SMEs could be helped more in the areas of finance and the exploration of new markets. He painted a picture of UK SMEs who trade overseas being currently heavily dependent on the EU market and spoke positively about assistance from the UK government and the European Commission.

Once again, a distinct difference of emphasis emerged between the panellists. Some argued that Europe should recognize its incapacity to compete in many traditional areas of economic activity with China, India and other rapidly developing new actors on the global economic stage. Europe's only future lay in the provision of greater skills and qualifications for its workforce which would enable it to remain "ahead of the game" by concentrating on sophisticated goods and services which China, India and others could not yet produce on a large scale. Other panellists and members of the audience wondered whether such an economic model would be able to provide a secure economic future for all or even the majority of Europe's anyway ageing workforce throughout the 21st century. The panellists were nevertheless agreed on one issue. It was vital for young people to learn such foreign languages as Chinese, Russian and Brazilian Portuguese.

The final conference session was chaired by Sir Brian Unwin, who introduced two wide-ranging presentations from Andrew Sentance, formerly a member of the Monetary Policy Committee, and John Stevens, former Member of the European Parliament and financial commentator. Andrew Sentance argued that in recent months the outlines had begun to emerge of a possible new institutional settlement for the Eurozone which, if implemented, would act as a stabilizing factor in an uncertain global economic environment. There was much work yet to be done before this outlined settlement, which would involve enhanced financial and political integration and solidarity between the members of the Eurozone, became a reality. Mr. Sentance thought however that the commitment of the Eurozone's leaders to creating this reality was a genuine one, more likely than not to bear fruit. He hoped, but was not entirely sure, that the United States of America would also soon be able to make a contribution to stabilizing the global economy. The forthcoming American Presidential Election was unlikely to lessen, and might even exacerbate economic uncertainty. Britain should not assume that its position outside the Eurozone would allow it to escape the consequences of global economic volatility. It was greatly in Britain's national interest that both the Eurozone and the

United States should set out credible plans for resolving the pressing economic problems with which they were confronted.

In the final speech of the conference, John Stevens agreed with much of what Andrew Sentance had said, but was more optimistic about the pace and impact of economic reform within the Eurozone. For John Stevens, the recent convulsions in the Eurozone might well have the positive consequence of rapidly liberating competitive energies within the European Union that would soon start to improve Europe's economic performance. Central to this process would be an integrated and reformed financial services sector in Europe. There were a number of economic and political reasons for favouring the introduction of "Eurobonds" but a sometimes overlooked benefit of them would be to help create a broad, deep and liquid pool of European savings that could contribute to growth and stability within the Eurozone. Many of those favouring the setting up of the single currency in the first place regretted that it had taken so long for this "pooling" of European savings to take place. If it occurred, it would be greatly to the benefit of the whole European economy.

John Stevens echoed Andrew Sentance's warning that Britain could not be sheltered from economic disturbance by being outside the Eurozone. Nor could it insulate itself from the effects of the Eurozone's emerging banking union in which shared financial regulation would play a central role. There were those in the City of London who believed that they would benefit from keeping European financial regulation at arm's length. This was, however, an extremely risky tactic. The concept of an "offshore" City of London, free to offer its services anywhere in the world, was unlikely to be sustainable in the long term, as regional financial centres came more and more to establish themselves, particularly in Asia.

At the end of a day of constructive ideas and discussion, Rod Dowler summed up the positive atmosphere with the thought that there was much that can be done to make 'Brand Europe' strong and successful. Brendan Donnelly thanked the team of speakers and the audience for their invaluable input and promised that the organisers would work hard to produce a final report matching up the right questions about Europe's economic future to the right answers needed to "Get Europe Moving Together".

Section 4 – The views of the delegates

Introduction

We asked the delegates at our conference to complete a questionnaire indicating which three elements of each of our eight key topics they considered the most important. We also asked for further comments both under each topic and as a final note. We received back 53 of these questionnaires.

This section (see page 17-24) sets out an analysis of those questionnaires. A recurring theme from respondents was the importance they attached to completing the single market.

We have included a selection of comments from respondents below each subsequent chart.

Note: In the bar charts, in each case the numbers of votes cast for the individual questions under each topic are shown in the column on the left, the questions asked in each section are listed on the right. The breakdown below shows the numbers of votes cast, the percentages and resultant placings.

Section 5 - Conclusions and recommendations

This section summarises the main earlier findings and recommendations arising from initial research, the conference, and the delegate questionnaires.

Leadership

In the current state of the European economy, leadership is not merely politically desirable, but economically essential. Europe's economic future is impaired by the uncertainty over its future political direction. Europe's leaders are frequently inhibited from sketching out bold plans for Europe's future by fear of adverse domestic reaction to such proposals. But national political leaders have the means, if they wish to use them, to lead public opinion towards a greater receptiveness for economic policies based on European solidarity and further European integration.

High priority actions to improve leadership:

- National politicians to explain to national electorates why purely national approaches will fail to solve Europe's economic problems.
- National and EU politicians to explain the benefits of European solidarity in a changing world in which the strength of Europe will inevitably suffer relative decline.

Completing the single market and structural reform

The steps already made towards a single EU market have had an important economic impact, but there is more to be done. This factor was given the highest priority by conference delegates who identified the need to restore economic growth. For their full effect, the necessary structural reforms are by their nature drawn-out, both in implementation and the production of demonstrable economic benefits.

The political background against which painful economic reforms are taking place in certain countries of the Eurozone is extremely volatile. The crisis of the Eurozone has on the one hand created a political context

within which national politicians can plausibly argue that reform is more urgently necessary than ever. On the other hand, they run the risk of being accused of undue subservience to political pressure coming from others in the European Union. Structural reform, encouraged by the deepening of the single European market, can undoubtedly make a contribution to a more stable and productive European future.

High priority actions to complete the single market and structural reform:
Adopt economic policies that cut wasteful and unproductive state spending while preserving and where possible enhancing the physical and human resources needed to support innovation and economic progress.

Continue as fast as possible with reforms needed to complete the single market, particularly in relation to areas such as energy, digital markets, financial services, professional qualifications and tendering for infrastructure projects.

Competitiveness

In an increasingly globalised world economy and in the context of a shifting global balance of economic power from West to East, it is crucial not only to maintain, but continuously enhance the European Union's competitiveness. Key elements in this process are infrastructure, innovation, education, training, economy in the use of energy and flexible labour markets. All these are areas in which the European Union has sought to make a contribution through its legislation and policies. In no case has it received the resources from national governments to make a substantial difference throughout the Union. It has been easier for national governments to criticize the Union for ineffectiveness than provide it with the wherewithal to make a difference.

The improvement of European competitiveness is a complicated process, for which an appropriate mix of policies is essential. The reduction of public expenditure is not of itself any guarantee of enhanced competitiveness. Indeed, the reduction of money spent on infrastructure and training can even reduce a national economy's competitiveness.

High priority actions to increase competitiveness:

- Maintain public expenditure particularly in long-term investment projects, education and training.

- Address barriers to increased internal market efficiency by the application of competition law, the encouragement of cross-border trade and the improvement of intellectual property law.

Innovation

The state is seen as having a key role in encouraging innovation. Top priority goes to increasing skills and encouraging an entrepreneurial culture. Supporting this is completion of the single market that will help national economies by providing the opportunity for the strongest companies to grow and easily take advantage of a market that, generally, far exceeds the size of their national markets. The EU has already achieved a lot in terms of the R&D framework programmes and the development of the aerospace and telecommunications industries, but more is needed.

High priority actions to improve innovation:

- Focus further on pan-European academic and skills programmes especially on science and technology.
- Encourage an entrepreneurial culture in both the private and public sectors, recognising the key role of the state in investment in STEM education and as a patient investor in R&D.
- Continue to complete the single market to provide innovators with the same sort of market scale as the US

Trade

The UK, Germany and some other EU countries have formidable capabilities as trading nations. Nevertheless, faced with price competition from the BRIC countries, in particular China, there is considerable need for some member states to increase external trade. One particular area in which many EU states lag behind the best performers like Germany, is in the export performance of the SME sector.

High priority actions to increase trade:

- Increase the focus on helping the SME sector
- Deepen regional integration in manufacturing
- Improve bilateral trade agreements and regulatory cooperation.

People, jobs and social impact

A recognition that the EU is a high wage, high cost, high standard of living area leads to the understanding that laissez faire economic strategies designed solely to cut spending threaten the long-term competitive advantages of the region. A new, EU-wide approach to industrial policy would focus on key sectors where investment and advanced skills can produce high value and competitive goods and services. Some of these sectors are aerospace, automotive, pharmaceutical, creative industries and professional services.

High priority actions to develop an industrial strategy aimed at people, jobs and social impact:

- Identify actual and potential areas of significant strengths in high value innovation, technology and services.
- Provide these with assistance in building, promoting and sustaining their competitive advantage and industrial performance, including investment in infrastructure, skills and training.

SMEs, regulation and access to finance

The importance of the SME sector is frequently overlooked by economic planners. SMEs fulfil vital roles in innovation, employment and training. Despite this they are frequently burdened by regulations that are more appropriate for larger companies and suffer problems of access to finance especially when there are problems in the overall financial sector.

High priority actions to provide the right regulatory and financial environment for SMEs.

- Diversify and deepen the range of sources of finance for SMEs
- Simplify tax and regulation for SMEs
- Encourage and promote entrepreneurship.

Fiscal and macroeconomic coordination

In the period of acute financial crisis between 2008 and 2010, the world's leading economies were able, through Keynesian spending

policies, to coordinate their economic policies in order to avoid the worst consequences of the global financial crisis. It has become increasingly difficult to pursue this policy, as lenders begin to fear the hitherto unconsidered possibility of sovereign defaults, particularly within the Eurozone. Although much has changed for the better since the beginning of the sovereign debt crisis in early 2010, the governance structures of the Eurozone still need improvement to create confidence in the currency's stability. These new governance structures must enable pursuit of a number of goals simultaneously: exclusive reliance on any single measure, such as the reduction of public debt, will be counter-productive, as the case of Greece has shown.

High priority actions to improve fiscal and macroeconomic coordination:

- Extend the powers of the ECB so that it becomes a full central bank to the Eurozone.
- Put in place financial Eurozone oversight mechanisms.
- Establish an EU regulatory regime that will help to restrain financial imbalances and asset bubbles from occurring, or at least to reduce collateral damage when they unwind .

Financial services

Banking Union is now a vital element of the Eurozone's new structure of governance. If properly implemented, it can contribute to Europe's general financial stability and prospects for economic growth. Rapid progress towards "Banking Union" is also important for the external credibility of the single currency. Differences within the European Council about the next steps towards "Banking Union" are already undermining some of the rebuilt external confidence in the euro arising from the European Central Bank's interventions in autumn of this year.

High priority actions to improve financial services:

- Give high priority to achievement of banking union.
- Use competition law and regulatory measures to encourage a single market in retail and SME banking services that would be provided by a strong and diverse set of providers.

- Set out the powerful strategic advantages that would accrue to the City of London and the whole EU economy in having a strong unified, financial sector backed by the full economic strength of the EU.

Next steps

The steps outlined above indicate that there are many actions that could be explored to get Europe moving together towards renewed prosperity. What is now needed is political will and executive action by EU bodies, national governments and a range of other organisations representing specific sectors of industry. Above all, economic and political co-ordination is vital. Even the largest member states of the Union will benefit from pursuing their economic policies in concert and co-ordination with their neighbours. Action at the European level opens up possibilities of coherent and self-reinforcing policies throughout the continent which no individual member state, or even group of member states, can hope to achieve acting in isolation.

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