

Fratzscher, Marcel; Kriwoluzky, Alexander

Article

Europe must focus on its strengths. Editorial

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AT A GLANCE

More Europe: 13 Challenges, 13 Solutions

By Alexander Kriwoluzky et al.

- In this issue, over 20 DIW Berlin researchers identify Europe's areas for improvement and suggest solutions
- A pact for innovation, more stringent merger control, and targeted industrial development would promote competitiveness and convergence
- New fiscal regulations, a stabilization fund, and more efficient insolvency procedures would make Europe more stable and social
- Europe must work together to tackle global challenges such as the environment and migration with a 100 percent renewable energy system, a climate pledge, and an EU plan for Africa
- Europe can successfully manage internal and external risks with more uniform conditions and a united front

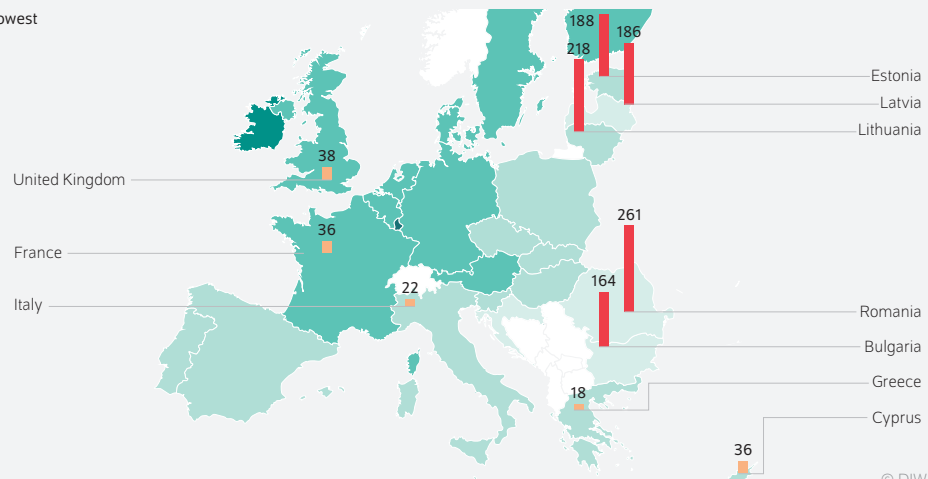
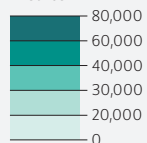
The level of prosperity across the EU is very consistent, but has converged significantly since 2000

GDP per capita 2017 in euros and percentage change since 2000

The countries with the five highest and five lowest percentage changes since 2000

■ High percentage change
■ Low percentage change

GDP per capita 2017 in euros



Sources: Eurostat, authors' own calculations.

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FROM THE AUTHOR

Three Ps are currently the greatest risks facing Europe: populism, protectionism, and paralysis. The European elections are an opportunity to change direction. We need more Europe in important areas in order to be able to react to challenges effectively—with a forward-thinking strategy focusing on Europe's strengths.

— Alexander Kriwoluzky —

MEDIA



Audio Interview with A. Kriwoluzky (in German)
www.diw.de/mediathek

Europe must focus on its strengths

By Marcel Fratzscher and Alexander Kriwoluzky

Europe is at an important crossroads. Rarely in the past 70 years have there been such existential risks, both within Europe and externally. The economic effects of the financial and sovereign debt crisis are still being felt in many European countries: crisis-ridden banks, high youth unemployment, and growing divergences within Europe. Increasing competition from Asia as well as the US government's protectionist trade policy are adding to the pressure.

There is also social polarization in addition to the economic dimension of the crisis. Europe is experiencing a massive demographic ageing, populism is on the rise in politics, and far too little is happening in Europe and its member states to counteract climate change and to protect the environment. This lack of action against climate change has inspired youth to take part in the "Fridays for Future" demonstrations across Europe. Moreover, Europe is continuing to receive an increasing number of refugees.

The greatest risks currently facing Europe are populism, protectionism, and paralysis. A retreat into isolationism seems to be an easy answer to Europe's problems taken straight out of the 19th century. Many politicians are making Europe the scapegoat for their own national mistakes. While the United States is acting increasingly protectionist, it is by no means alone. Many states in Europe are also trying to give domestic companies an advantage by means of a national industrial strategy, regulation, or domestic economic policies regarding energy, digitalization, migration, or direct investments. Many urgently needed reforms have slowed down or come to a standstill. In particular, the restructuring of the monetary union—by completing the banking and capital market union, introducing smarter fiscal policy rules, or strengthening European institutions—is being delayed or blocked. Despite the risks and challenges present, it is important to note that Europe has significantly contributed to stability, prosperity, and peace over the past 70 years with its single market and single currency.

The 2019 European elections on May 26 are a great opportunity to change direction to ensure Europe's shared progress continues. What must the European Union and its member states do to stop divergence and polarization so Europe can continue to progress together? How can the EU as a whole stabilize its economy and succeed in global competition with China and the US? How can Europe live up to its global responsibilities? These central questions—some of which we will further investigate in this Weekly Report—will arise after the European elections. However, we are not offering a single, all-encompassing answer for the future of Europe. Rather, in this Weekly Report, over 20 DIW Berlin scientists analyze specific problems and present their visions and strategies for the future.

The thirteen challenges presented here can be grouped into three thematic areas. Since the establishment of the European Economic Community, policy has focused on the common internal market, maintaining favorable trade relations as a community, and promoting weaker economic regions. In the area of "Competition and Convergence," DIW Berlin's analyses show that Europe can only prevent the negative consequences of the US government's protectionist trade policy by adopting a united stance against it. Furthermore, the analyses examine the extent to which a "Pact for Innovation" and an industrial policy that accounts for the differing regional conditions for industry contribute to ensuring that Europe's regions do not continue to diverge economically and that Europe is better able to cope with global industrial change. Another report underlines the importance of an independent European competition authority that effectively enforces merger control in order to ensure competition in the internal market benefits European consumers.

In order to secure and equitably distribute future prosperity, Europe must provide answers to the challenges we face in the area of "a stable and social Europe." Five suggestions for a new fiscal package, such as new spending rules, could

enable more flexibility during downturns and act countercyclically. To better combat the consequences of economic crises, Europe needs a stabilization fund, which, similar to insurance, grants money to member states during downturns and is paid into by member states when the economy is strong, with the amount based on their risk classification. In addition, an integrated equity market can help mitigate the effects of economic fluctuations. More efficient insolvency rules could be the key to further integrating the capital markets. Gender equality is another important social aspect in Europe. Gender equality on supervisory boards only exists in countries with a binding gender quota, and the difference in employment history between men and women is reflected in the pension gaps that have been documented across Europe. It is therefore necessary to establish Europe-wide rules to end the systematic discrimination of half the European population. As education is an indispensable prerequisite for Europe's prosperity, schools should integrate an updated education platform modeled after European universities to be able to respond to new challenges such as digitalization at the earliest possible stage of education. The EU should provide funds for the independent and external evaluation of schools.

Marcel Fratzscher is president of DIW Berlin | mfratzscher@diw.de

The third area focuses on the global responsibilities that European countries must face together, including climate policy and energy supply. In order to reach climate targets, the energy industry must switch exclusively to renewable energies. This is technically possible and economically worthwhile if the market conditions are right throughout Europe. A climate deposit as a levy on the use of emission-intensive raw materials could drastically reduce CO₂ emissions without having to fear industry relocating abroad. Migratory pressure from Africa is another one of the global challenges Europe must face together. Researchers at DIW Berlin argue that a single country such as Germany cannot do enough with its "Marshall Plan with Africa," but European countries could certainly be successful if they work together.

So, what direction should Europe take? Europe should strive towards achieving "more Europe" in important areas to be able to react to challenges effectively—with a forward-thinking strategy focusing on Europe's strengths.

Alexander Kriwoluzky is head of the Macroeconomics department at DIW Berlin | akriwoluzky@diw.de

LEGAL AND EDITORIAL DETAILS



DIW Berlin — Deutsches Institut für Wirtschaftsforschung e.V.

Mohrenstraße 58, 10117 Berlin

www.diw.de

Phone: +49 30 897 89-0 Fax: -200

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Publishers

Prof. Dr. Tomaso Duso; Prof. Marcel Fratzscher, Ph.D.; Prof. Dr. Peter Haan;
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Sale and distribution

DIW Berlin Leserservice, Postfach 74, 77649 Offenburg

leserservice@diw.de

Phone: +49 1806 14 00 50 25 (20 cents per phone call)

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