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A Challenging Juncture for von der Leyen II

To tackle Europe's economic decline, prepare and actively adapt for a new wave of enlargement, and defend Europe's geopolitical position, as a rule maker, the European Commission will need to deliver. Looking back at the past five years provides reassurance that preparedness is in place: beyond the planned programmes, the European Commission effectively responded to multiple crises. But the path forward will be steep.

The economic challenges are undoubtedly enormous. The Draghi report has laid them out very well. Europe's wealth creation is in question: Europe does not invest or innovate sufficiently, it does not spend enough on R&D, and it lacks qualified labour. It needs to prepare for a rapidly ageing population and invest more in defence. The productivity gap between Europe and the US is between 12% and 30%, depending on the measure. And as the Letta Report also laid out well, the EU is not enough of a single market, it is too fragmented in financial and digital services, and energy is too expensive.

There have been many challenging junctures for the EU, and the EU Commission, over the past decades. Ten years ago, Jean-Claude Juncker spoke about the "Commission of the last chance". Competitiveness was already a core concern over 20 years ago, as evidenced by the Lisbon declaration of the December 2000 European Council and the troubles in Germany in 2001-03, when the country was the "sick man" of Europe, leading Chancellor Schröder to enact the Hartz reforms.

Over the past five years, the EU has demonstrated that it can respond to unexpected events. In addition to addressing the green and digital transition, the EU Commission reacted to the COVID-19 pandemic, to the energy crisis and to Russia's illegal invasion in Ukraine. The EU adopted the Support to mitigate Unemployment Risks in an Emergency programme and Recovery and Resilience Facility to prevent an economic downturn. It adopted 14 packages of sanctions against Russia by unanimity among the foreign ministers. In June 2022, the European Council agreed to accept candidate status for Ukraine and Moldova, and opened accession negotiations in June 2024.

What is problematic now is the shrinking of the centre and the rise of the extreme right in the European Parliament, and in many member states, which will make any programme to tackle Europe's decline or agreements on further enlargement difficult. Compared to 15 years ago, the centrists parties' (EPP, S&D, Renew, Greens) share in the European Parliament has declined from about 85% to 65% of the seats. Whether they are bribed by Russia, or other forces, far-right parties have a common interest in adopting populist policies to win over voters, be it with anti-immigration or purely racist slogans, protectionist policies, or irresponsible fiscal measures. Such policies will certainly not improve Europe's competitiveness. But what is competitiveness and how to explain it?

For many, competitiveness is shorthand for reducing regulatory overkill, or it is inversely related to regulation – i.e. the more rules, the lower the profits. The EU is seen as the cause of this excessive regulation; some find it an unaccountable bureaucratic monster, the source of unbridled rulemaking for the digital and green transition outpacing corporations. The origin of this misunderstanding is the assimilation of the competitiveness of companies into that of countries, where it is entirely different. For a company, it is the bottom line, its market share and growth. Countries, on the other hand, can be competitive in various ways. The metric is the wellbeing of the population, for which

different measurements exist that do not have a consensus. Paul Krugman's 1994 Foreign Affairs article *Competitiveness: A Dangerous Obsession* remains topical. He argued that "competitiveness is a meaningless word when applied to national economies. And the obsession with competitiveness is both wrong and dangerous." Although these observations were made 30 years ago mainly with respect to competitiveness between the EU, the United States and Japan, if we replace "Japan" with "China", it is applicable to the current global geoeconomics.

At the country level, the most often-used indicator is gross national product (GNP), but even here, there are assorted ways to measure it (e.g. GNP in absolute numbers, or per person, working population only, per hour worked and at purchasing power parity – each produces very different results). International comparisons have the problem of adjusting for exchange rate differences. A country can be competitive while having an enormous trade deficit (e.g. the US) or being highly indebted (e.g. Japan). But the distribution of wealth and its evolution are also notable, where important differences remain in the EU and at the member state level (see the ECB's household wealth data¹ and Gini coefficient). A median increase in household wealth could be more consequential than absolute GNP growth.

Hence, the use of competitiveness as a mantra for the von der Leyen II Commission is fraught with difficulties. It is probably no coincidence that the Draghi report, while being all about the future of European competitiveness, does not define it. This is a serious challenge for the new Commission to use it as its leitmotif. According to Jacques Pelkmans, "without a definition it becomes hard and somewhat arbitrary to identify how his proposed strategy, if implemented, could be deemed as either a success or a failure. There is also no clear priority setting anywhere".²

Moving to the geopolitical ambitions of the EU, this will be equally difficult. Five years ago already, President von der Leyen wanted a geopolitical Commission, which was well chosen in hindsight, but remains difficult, given the limited or subordinate competencies of the EU in foreign and security policy. The proposed appointment of a Commissioner for Defence and Space (Andrius Kubilius) in a mandate shared with two other Commissioners and the Commission President led to NATO Secretary General Stoltenberg's warning against duplication and competition.³

There is no single market in the EU for the procurement of defence material; instead, this sector is very fragmented and uncompetitive. The EU would firstly need a treaty change to make a defence single market possible, which would be very difficult politically. The EU has tried to circumvent this with the European defence industry reinforcement through common procurement and Support of Ammunition Production programmes, but the budget of these is not even 1% of the national defence budgets of its member states, which amounted to €214 billion in 2022.⁴ The EU will thus need to watch its credibility when moving in the security domain, and manage to keep pace with NATO, which has enlarged substantially recently with Finland and Sweden.

Our proposal for the von der Leyen II Commission is to focus on delivering. After the enormous legislative efforts of the past five years, the EU Commission should make sure that all of these rules are well implemented and enforced. Enforcement remains a weak point for the EU, with the Single Market Scoreboard showing an increasing number of infringements. Delivering on the Single Market, as Enrico Letta repeatedly indicated, should be the best way forward to growth. Delivering on enlargement, and thus extending the Single Market, should build on previous success stories and contribute to the geopolitical stability of the European continent. Communicating this well to the European population remains a challenge, but given the achievements by President von der Leyen in her first term, this should be attainable in the second term.

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1 <https://www.ecb.europa.eu/press/pr/date/2024/html/ecb.pr240108~ae6f7ef287.en.html>

2 <https://www.ceps.eu/ceps-publications/a-critical-first-response-to-mario-draghis-competitiveness-report/>

3 <https://www.ft.com/content/2f12a312-6ac3-4f84-aae5-de6b247638fe>

4 <https://legrandcontinent.eu/fr/2023/09/25/pour-un-marche-unique-de-la-defense-europeenne/>