

What growth model(s) for Europe?

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The economic debate / political conflict in Europe

- Two related issues often discussed separately
 - Macroeconomic (budget/fiscal) policy in relation to the sustainability of public debt trajectories
 - Structural reforms allegedly to enhance growth/competitiveness
 - But *structural* reforms mean a change of the socio-economic model
- Discussion mostly about finding the “right policy”
 - Ignores the political economy aspects
 - An academic debate rather than a political conflict
 - Often neglects the links between macroeconomic policy and structural reforms
 - Using budget policy to promote “structural” (neoliberal) reforms, two options
 - Accommodating macro policy to soften the blow of neoliberal reforms (Macron’s advisors 2017...)
 - Austerity to force the acceptance of neoliberal reforms (Schäuble, troika in Paris...)

Growth/competitiveness-enhancing reforms

- A long-standing concern (Amable & Boyer 1994)
 - Europe falling behind USA & Japan /technology
 - Science OK, innovation not so much
- Lisbon Agenda (2000-2010)
 - make Europe the most competitive knowledge-based economy in the world by 2010
 - Initially a strange mix of vague social-democratic aspirations and technological determinism...
 - ... hinging on an unlikely coupling of social protection and market liberalisation...
 - ... transformed into a neoliberal cum Schumpeter structural reform programme after the mid-term review

The allegedly doomed European socio-economic model

- Europe in the early 2000s: pressure for structural reforms (Sapir report, Kok report...)
- The trouble with Europe: supposedly inadequate institutions, not inadequate macroeconomic policies
 - Everything allegedly OK with fiscal consolidation linked with the introduction of the Euro
 - Blame put on institutions inherited from the Fordist period ill-fitted to the new techno-economic paradigm due to their lack of flexibility and adaptability
 - Revisiting Walter Lippmann and the early neoliberals in the 1930s, celebration of innovating SMEs and condemnation of the oligopolies supposedly protected by outdated Fordist institutions
 - Liberalisation of the employment relation, the financial system, social protection, etc.

Structural reforms with the associated macroeconomic policy

- Lisbon Agenda post 2005: insisting on the ‘coherence’ of reform packages, coordination of economic and budgetary policies
 - suppression of ‘excessive deficits’
 - Reduction of public spending and the public expenditure share
 - *‘a reduction in State aid that distorts competition’*
 - *‘promote new technological initiatives based on public-private partnerships and cooperation between Member States, that help tackle genuine market failures’*
 - reform of pension, social insurance and health care systems... to become financially viable
 - adapt the tax structure to strengthen the growth potential

Draghi 2024

- The recent Draghi report takes up the same theme as the reports of twenty or thirty years ago
 - Europe is falling behind the most dynamic areas of the world economy
 - a series of measures designed to make the old continent more competitive in the future
- Compared to the situation in the 1990s and 2000s, a number of new themes have emerged
 - energy transition
 - Dependence / Russia, China
 - new competitors... China
 - IA replacing ICT
 - ...

A new “growth model”?

- Industrial policy and public investment
 - *“Fiscal incentives to unlock private investment therefore appear necessary to finance the investment plan, in addition to direct government investment”*
 - 5% of GDP is a lot of money...
- multi-policy strategies
 - combining *fiscal policies* to incentivise domestic production, trade policies to penalise anti-competitive behaviour abroad and foreign economic policies to secure supply chains
- But still neoliberal
 - reduce the regulatory burden
 - *“market failures should be clearly specified and public authorities should avoid duplicating what the private sector would already do”*
 - *“The evidence is overwhelming that competition stimulates productivity, investment and innovation”* Uh... not really (Amable et al. 2016)

Big business-friendly neoliberalism

- The Draghi report points to the lack of concentration in certain markets (purchase of gas, supply of telecoms services, etc.) as a weakness
 - The pro-competition discourse was useful when the order of the day was privatisation, but now...
- Post-WWII Chicago neoliberalism rather than pre-WWII anti-monopoly neoliberalism
 - Country-level ex ante regulation should be reduced in favour of ex post competition enforcement in cases of abuse of dominant position

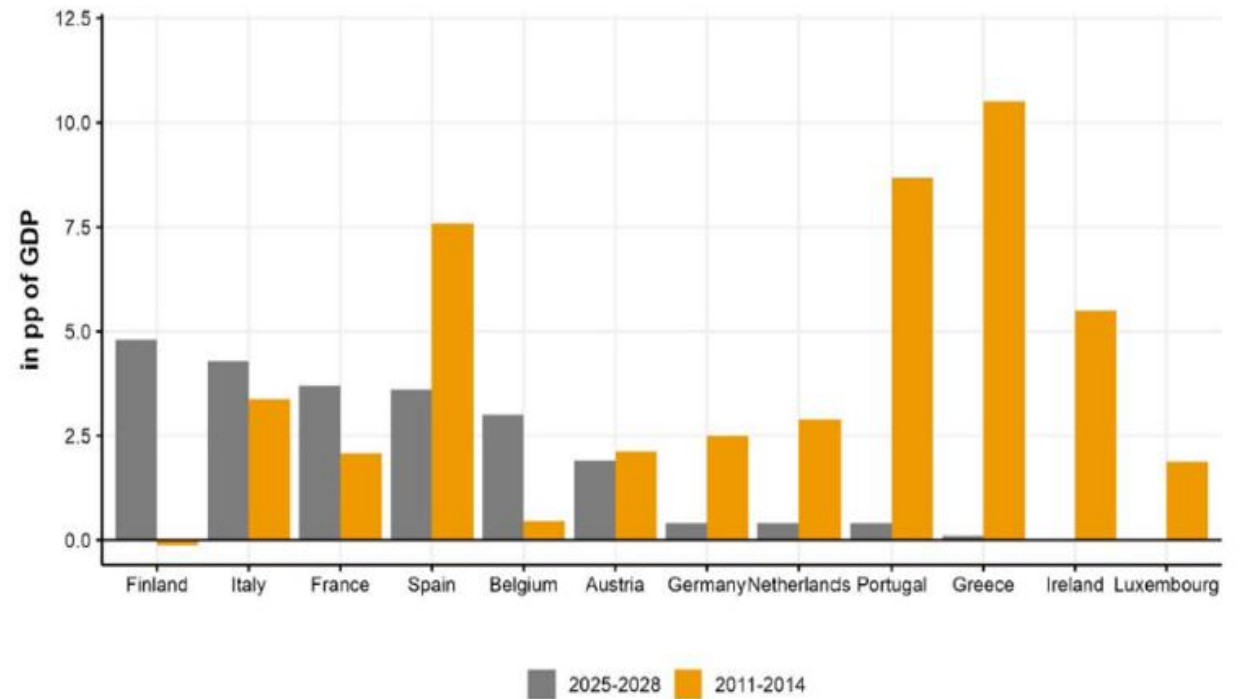
Financialisation alive and well

- *“assessing whether further changes to capital requirements under Solvency II are warranted”*
- *“assess whether current prudential regulation, also in light of the possible upcoming implementation of Basel III, is adequate to have a strong and international competitive banking system in the EU”*
- *“EU banks also face some specific regulatory hurdles which constrain their capacity to lend”*
- More securitisation
 - *“EU banks cannot rely on securitisation to same extent as their US counterparts”*
- Development of pension funds allegedly for financing long-term investment
- Common safe asset, whose existence and diffusion would require a *stronger set of fiscal rules* to ensure that that an increase in common debt is matched by a more sustainable path of national debt
 - Consequences for public social protection are easy to figure out

Macroeconomic policy

- Austerity in the offing
- The European Commission sent a reference trajectory to the governments that did not meet the 3% limit and/or the 60% target.
- pre-plan guidance on how much fiscal adjustment each member country would have to implement between 2025 and 2028

Figure 6 / Cumulative fiscal consolidation over the 2025-2028 period (reference trajectories according to the reformed EU fiscal rules) vs. the 2011-2014 period (euro crisis), measured as the improvement in the structural primary balance (in pp of GDP)



Source: Heimberger (2024)

Trading less austerity for more structural reforms

- Negotiations between the European Commission and each individual national government on multi-year fiscal consolidation plans
- The fiscal consolidation may be relaxed (adjustment period lengthened to 7 years) if governments propose a series of investments and reforms that the European Commission agrees on
 - Decarbonation digitalization (cf. Draghi report)
 - Reforms consistent with debt sustainability: pensions...

From LME to CME?

- **Draghi 2012**

- *WSJ: Do you think Europe will become less of the social model that has defined it?*
- *Draghi: The European social model has already gone when we see the youth unemployment rates prevailing in some countries. These reforms are necessary to increase employment, especially youth employment, and therefore expenditure and consumption*

- **Draghi 2024**

- Competitiveness today is less about relative labour costs and more about knowledge and skills embodied in the labour
- The European welfare state will therefore be critical to provide strong public services, social protection, housing, transport and childcare during this transition
- policymakers were arguably too insensitive to the perceived social consequences of globalisation, especially its apparent effect on labour income
- Europe will need a fundamentally new approach to skills. The EU must ensure that all workers have a right to education and retraining, allowing them to move into new roles as their companies adopt technology, or into good jobs in new sectors
- Europe not CME enough (insufficient involvement of industry in developing job-specific skills)

A new socio-political alliance

- Echoes of neoliberalism in the 1930s, when some proposed to call it “social liberalism” or even “left liberalism”
 - *“More effective and proactive citizens’ involvement and social dialogue, combining trade unions, employers and civil society actors, will be central in building the consensus needed to drive the changes”*
- **Why these sudden social and political preoccupations?**
- Because the social base of the dominant political strategies are likely to be affected
 - *Research from the US finds that around 80% of the workforce could have at least 10% of their work tasks affected by the introduction of the large language modules, while almost 20% of workers could see at least 50% of their tasks affected Unlike previous waves of computerisation, the jobs of higher-skilled workers are likely to be more exposed.*

- The main economic issue in (most) European countries is the socio-economic model
- The strategy for the EU looks like CME (still neoliberal) with austerity
 - Coherent?
- but there is (probably) no stable dominant social bloc/political strategy supporting the neoliberal transformation that has been taking place for several decades
- 3 dimensions of domination (Amable & Palombarini 2023)
 - *Political*: instability of neoliberal transformation political coalitions (everywhere?)
 - *Institutional*: neoliberal transformation for every country but to a different extent and at different paces... hybrid socio-economic models (unstable?)
 - *Ideological*: neoliberal ideology still dominant but declining
 - Less consent, more coercion

To conclude

- There is no politics of growth because the idea that (aggregate) growth is an objective widely shared by all social and political forces is a figment of the imagination
 - It could in some circumstances result from a political equilibrium
- Is there a dominant social bloc/political strategy for policies whose outcome would produce growth?
- Not in Europe apparently

