

# WIFO

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ÖSTERREICHISCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG  
AUSTRIAN INSTITUTE OF ECONOMIC RESEARCH

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A-1030 VIENNA – AUSTRIA, ARSENAL, OBJEKT 20

# Challenges for Europe 2050

## Introduction to Policy Panel

**Karl Aiginger**

12TH EUROFRAME CONFERENCE ON ECONOMIC POLICY ISSUES IN THE EUROPEAN UNION  
WKO – Austrian Economic Chambers, June 12<sup>th</sup>, 2015

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Moving Europe towards a new path of growth and development

■ The goals: **Welfare**, **Wealth**, **Work**

- Europe needs to become more **dynamic**, social and **ecological**
- Scientific support for Europe 2020
- Towards a socio-ecological transition

■ F7<sup>th</sup> Framework Programme 2012/2016

- WIFO (Coordinator) plus 33 partners, 4 years
- Boards with a Nobel laureate, ex prime minister, Commissioner EU, OECD

■ 2015: Start of Synthesis Phase

⇒ Homepage: <http://www.foreurope.eu/>

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Policy Board

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Shortname	Institution	Nationality
WIFO	Austrian Institute of Economic Research	Austria
Budapest Institute	Budapest Institute	Hungary
UNS	Nice Sophia Antipolis University	France
Ecologic	Ecologic Institute	Germany
FH Jena	University of Applied Sciences Jena	Germany
FUB	Free University of Bozen/Bolzano	Italy
GEFRA	Analyses	Germany
GUF	Goethe University Frankfurt	Germany
ICLEI	Sustainability	Germany
IER SAVBA	Academy of Sciences	Slovakia
IfW	Kiel Institute for the World Economy	Germany
KRTK MTA	Institute for World Economics of the Hungarian Academy of Sciences	Hungary
KUL	KU Leuven	Belgium
MUAF	Mendel University in Brno	Czech Republic
OIRG	and Spatial Planning	Austria
policy network	Policy Network	United Kingdom
Ratio	Ratio	Sweden

Shortname	Institution	Nationality
SURREY	University of Surrey	United Kingdom
TU WIEN	Vienna University of Technology	Austria
UAB	Universitat Autònoma de Barcelona	Spain
UBER	Humboldt-Universität zu Berlin	Germany
UEB	University of Economics in Bratislava	Slovakia
UHASSELT	Hasselt University	Belgium
UNI-KLU	Alpen-Adria-Universität Klagenfurt	Austria
UNIVDUN	University of Dundee	United Kingdom
UNIVPM	Università Politecnica delle Marche	Italy
UOB	University of Birmingham	United Kingdom
UP	University of Pannonia	Hungary
UU	Utrecht University	Netherlands
WU	Business	Austria
ZEW	Research	Germany
COVUNI	Coventry University	United Kingdom
IVO	Ivory Tower	Sweden
ASTON	Aston University	United Kingdom

## Change for Europe needed

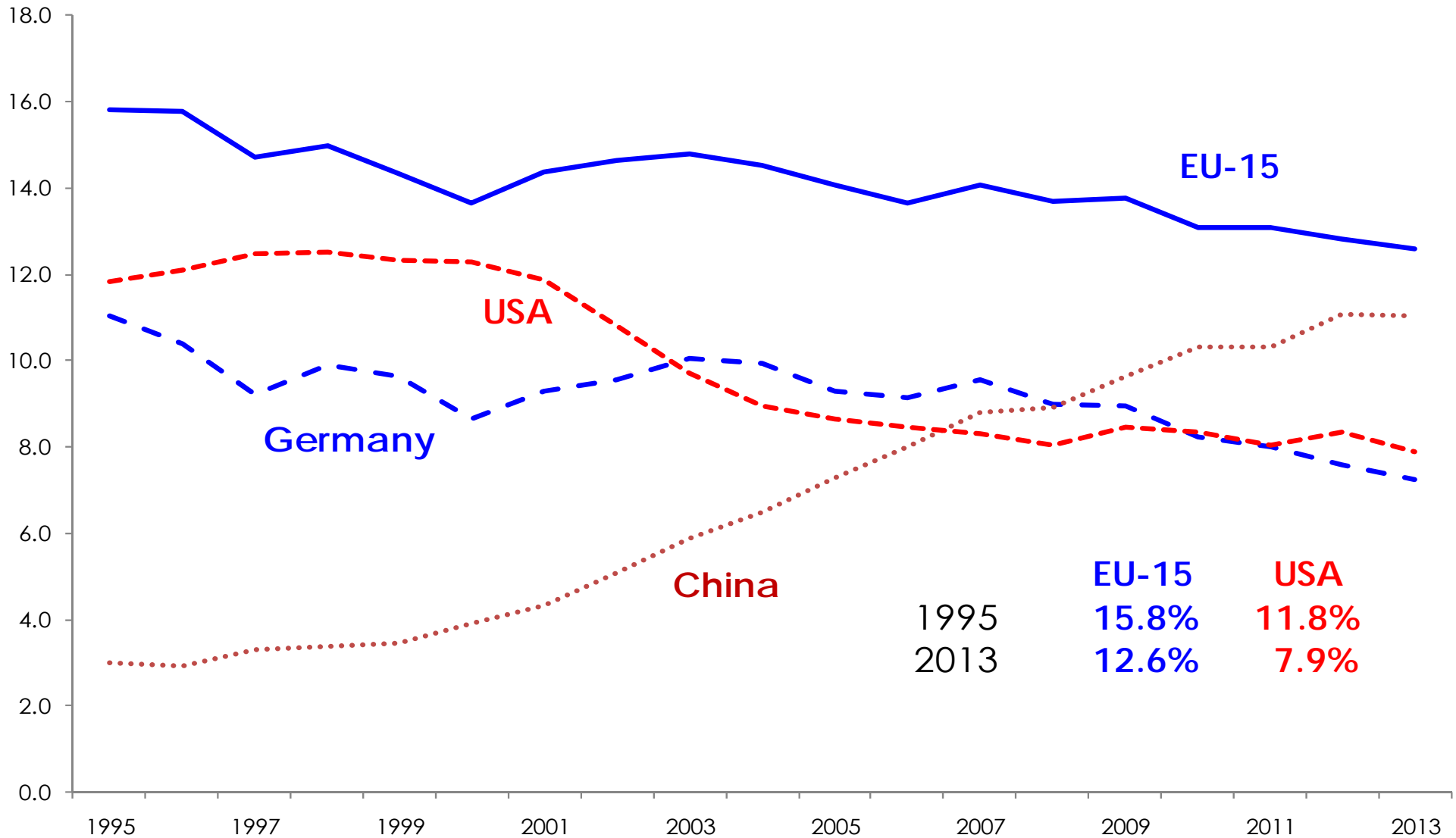
- More **dynamics**, externally (extension) and internally
- Lower **unemployment**, lower disparities, and disequilibria
- Higher **share of wages** and **investment** into real sector

## European Strengths

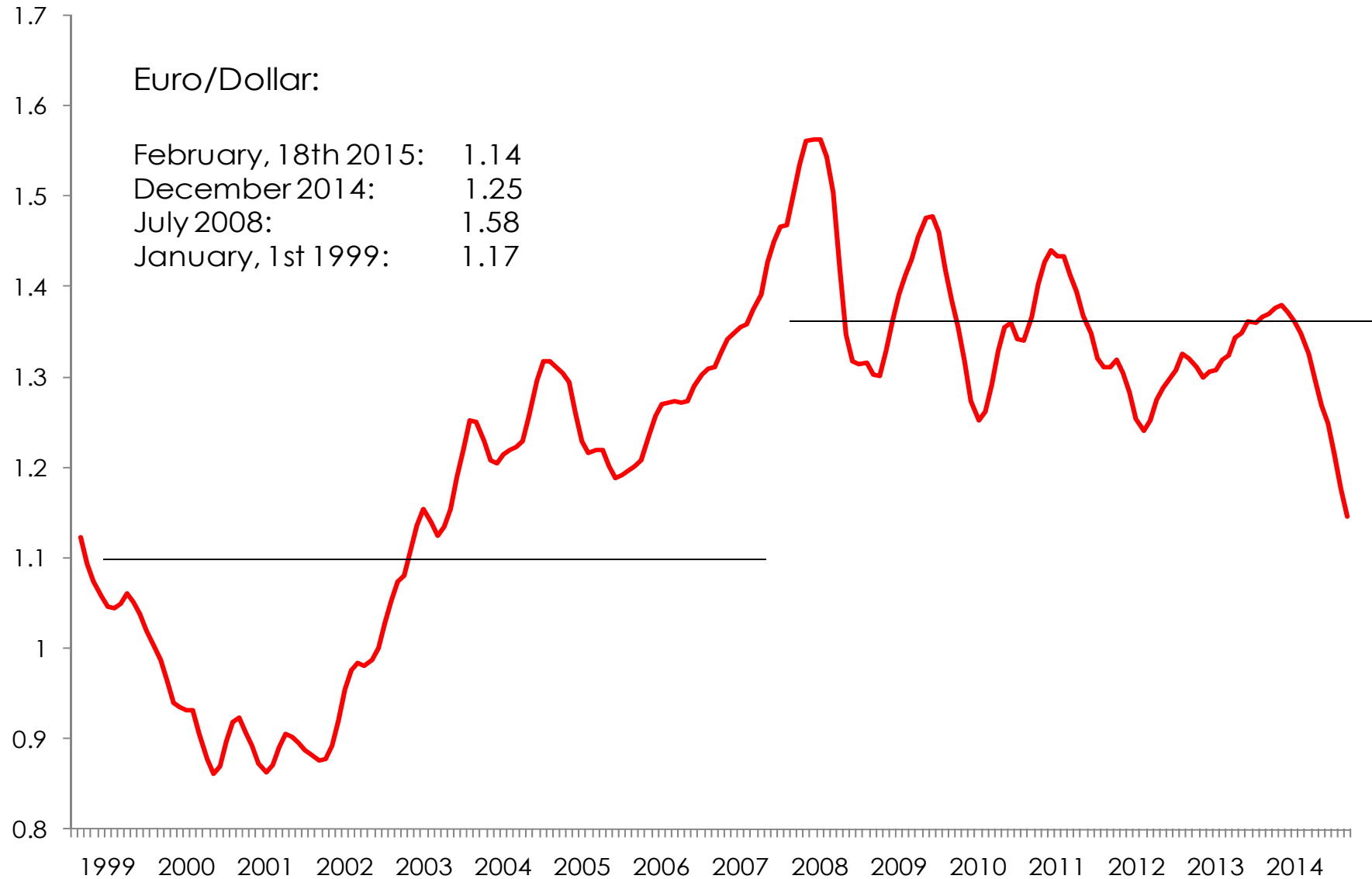
- Stable world market share
- No external deficit
- Larger share of manufacturing
- From 6 to 28 members (+10).

# Rather stable European market shares

Share of exports (in % of world exports)



# Euro lower but as strong as at the start



- EU BIP 2015 = 2008, youth unemployment 20%
  - New Commission with new agenda, responsibilities
  - Growth & employment focus: Strategic Investment Fund
  - No 1 renewables, energy union
  - Disequilibria still exist, fiscal union, banking union
- ⇒ **Cyclical recovery supported by low Euro and oil price.**



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	2010 - 2025
EU 27(28)	1.5% – 1.8%
USA	2% – 2,5%
Japan	1% – 1,5%
China	5% – 7%
World	3.5%

⇒ Future growth: EU 27 between 1% and 2%

⇒ Definitely less than before 2-3%

⇒ Growth differential towards US.

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**Jeffrey Sachs** in Financial Times August 19, 2008:

- Strong democracies, no US style underclass
- Peace, negotiating instead of bombing (see also Nobel Prize)
- Low child mortality, high life expectancy
- Preference for leisure

**World Bank** (golden years project 2012)

- Europe is an integration machine
- Rapid transformation and catching up of ex-socialist countries.

- Europe as role model for successful regions 2050:
  - Stronger **dynamics** based on innovation and human capital
  - **Less differences** in incomes, higher employment
  - World leader in environmental **technology**
  - **Stable** due to a modern, regulated financial system
  - Heterogeneous **preferences, pluralistic**
  - Open area, **enjoying globalization**; inviting neighbours
- ⇒ **A better model than US**
- ⇒ **It needs political will plus scientific support**
- ⇒ **Europe had been always been best when having a long-run goal.**

- 
- Vision starts from **goals** not from problems
  - Consolidation is necessary, but not sufficient; **dynamics, employment, transition** are the goals
  - Taxing **financial transactions** supports the real economy
  - **Distribution** matters for growth and stability
  - 20% youth unemployment is intolerable
  - Europe has to deal with - **and enjoy** - **internal heterogeneity**
- ⇒ **The growth path will be less steep than before**
- ⇒ **The welfare content of growth gets higher.**

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- **Relative decoupling** ⇒ **deep absolute cuts**:
    - **Minus 80-90 % CO2 emissions up to 2050**
    - **Material consumption (incl. imports) declines**
  - **Doubling energy efficiency; 50 % renewables**
  - **Reduction of unemployment even in phase of low growth**
  - **Redirecting technical progress to resource saving**
- ⇒ **Manageable given 40% of R&D is government financed**
- ⇒ **If the share of public expenditures in GDP is 50%**
- ⇒ **(Some) signs of relative decoupling occurred in phase of declining CO2 price; and subsidies for fossils larger than renewables.**

- In midlife crisis
- Needing reforms
- Vision: model for high income regions 2050

⇒ WIFO plus 33 partners are designing the strategy.

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