



The EU's ambitions: scale, strategic investments and skills

Description

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Brussels has entered pre-election mode, and over the next few months, there will be a lot of talk about the priorities and objectives the new EU leadership should pursue over the second half of the 2020s. However, given the underlying trends in climate, global governance and digitalisation, priorities should be thought of over a much longer period. The EU needs to fundamentally rethink three issues: scale, strategic investments and skills.

Scale

In an increasingly fragmented world, the EU can only defend its interests if it can operate at and maintain scale. From a single market to a single currency and single positions on the big issues, the EU and its member states always do better if they speak as one, as seen during the pandemic. But the reality is that the EU speaks with one voice very rarely. The single market, while the biggest in the global economy, is imperfect. When it comes to the banking sector, the market is single in regulation only. As for capital, the market is small to non-existent. Even for products and particularly services, there are many national restrictions.

While the euro is a strong and trustworthy currency, it is far from a contender to the dollar. The absence of a single safe asset and the EU's *de-facto* fragmented governance have not convinced the rest of the world of its leadership potential. It is not the intention

of the euro to displace the dollar as a global financial hegemon. It is simply that the size of the EU's economy and the popularity of its currency are not in sync. This prevents the EU from exploiting its market size in full.

When it comes to speaking with a single voice, few policies are truly European, beyond trade and competition. National sovereignty is sacrosanct and decisions on the big issues require unanimity. When it comes to the biggest issues, like security and defence, EU cooperation is rudimentary at best. There is no doubt that without scale, the EU will not be able to defend independent positions against China or possibly the US.

Strategic investments

The EU is known for having large investment gaps. The European Commission states that €481 billion is needed to advance until 2030 with the EU's climate and digital objectives only. But there are other objectives, including defence, health and energy, that also merit attention. In a [recent report](#), my co-authors and I argue for defining a long-term investment strategy and priorities for the EU, given the great number of issues that require attention.

But that is not enough. When there are clear and demonstrable benefits from pursuing the above priorities collectively in the EU, the financial means to do it should be found centrally. For some issues, such as tackling climate change, collective action is needed; unless it is pursued collectively, it will not be tackled, given the public nature of the good. For other issues, if it can be demonstrated that there are cross-border benefits in pursuing investments collectively, then they should also be financed from a common pot. There have been past EU attempts to invest strategically but they have been sporadic and finite. A common strategy on investments will help achieve scale.

Skills

In the world of two main competing economic models, capitalism versus state capitalism, the one thing that is certain is that those with the right skills will prevail. The economies that adapt to the skills of the future are also those that will have the right basis for competing. This entails flexible primary and secondary education systems that can anticipate future labour market needs, but also the necessary skills that will sustain people's financial well-being. Tertiary education will necessarily become more modular and prolonged in the future, as life-long learning will be integral to career development as skill needs change fast. This is the harder of the three ambitions that the EU should pursue, as there is little coordination between member states, which remain responsible

for defining their own education and skills systems. It may, however, be the most important and urgent aim to pursue as action will only bear fruit in the medium term.

Despite the undeniable need for global cooperation, the reality is that the global system is at best, fragmented and at worst hostile. For the EU to have a chance to defend its own interests and help maintain a multilateral system, it needs to carry greater weight. It can only do that if it speaks and acts more as one.

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