

How Europe Can Save Itself

BY STEFAN SCHAIBLE

The fate of the social market economy, if not democracy itself, is at stake.

With the transatlantic trade and investment deal reached at the end of July, Donald Trump provided Europe with yet another wake-up call. The first one came in March 2017 when the U.S. president suggested that Europeans should do more in the financial and industrial sphere to improve our capacity for (self-)defense. We largely ignored his message back then, but should definitely learn our lesson now.

The trade deal underscored that Europe has become very vulnerable to pressure. This is in part due to its military weakness, but also because Europe is not taking enough advantage of its own economic potential.

If Europeans lacked a reminder of why they need to lower internal trade barriers, they have it now. A Europe that finally acts as a truly integrated economy, as has long been the case in the United States, and a Europe whose goods, services, and capital markets operate according to the same rules would be equally attractive to European and global investors. Only with growth momentum will Europe be a truly accepted and attractive partner for other nations and regions around the world that are keen on pursuing their own economic ambitions.

Estimates from the International Monetary Fund make it plain for all to see: If European countries' internal trade barriers were reduced to reflect the level of those between U.S. states, labor productivity in the European Union could be close to 7 percent higher. Productivity gains could exceed that if the reduction in barriers leads to efficiency gains by reallocating resources toward the most productive sectors in each country.

The completion of the European Union's single market has long been talked about. It must now finally become the top EU priority. Politically, we won't have many more opportunities to act with the required determination.

Strengthening Europe's growth prospects requires the finalization of the capital markets union, the implementation of the digital euro, the introduction of Eurobonds combined with strict budgetary discipline, the strengthening of European rating structures, as well as the strengthening of European banking supervision.

As much as it pains me as a long-time believer in the transatlantic alliance to say this, if Europe can get its house in order, the declining confidence in the U.S. dollar makes for favorable conditions for strengthening the global relevance of the euro. A euro that is supported by deep and liquid capital

markets could give the European Union both credibility and more influence in international trade.

Further potential lies in reducing bureaucracy. The European Union must stop its slide towards an increasingly complex regulatory environment that restrains internal dynamics, thereby inhibiting much-needed economic growth.

Defense is another important economic catalyst at this stage. Europe may have less than five years to establish significant defense capabilities. It thus has every incentive to transcend previous boundaries of thinking in industry and deepen forms of cooperation, for example between established companies and start-ups. There are already good examples of how silo thinking is being broken down and cooperation promoted: Mistral AI & Helsing (software-defined weapon systems), as well as Daimler Truck & ARX Robotics (autonomous ground vehicles).

Combining increased defense capabilities with economic strength can reduce our dependence and give Europe room for maneuver again.

All of the economic sectors addressed above will test the European will to collaborate at political and corporate levels. To achieve this, a new form of cooperation between the public and private sector is needed throughout Europe. No more lobbying on the one hand and hiding behind

entrenched interests, bureaucratic regulations, and procurement guidelines to prevent dynamic change on the other.

Let us not forget that without focus and determination, neither the globally well-known success story of Silicon Valley nor the much lesser-known story of the transformation of Germany's state of Bavaria from an agricultural economy into a globally relevant industrial location would have been possible.

If Europe really wants to stimulate economic growth, the genuine integration of the European capital market, the digital economy, the goods market, as well as the defense sector are essential.

The stakes are high. Given the current populist onslaught Europe faces, whether or not it succeeds with implementing this reform agenda could very well be key to preserving the social market economy, if not democracy itself. That is why "Europe, all in" is now the order of the day. ◆

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