Recommendations for Europe

Chapter 2 The European Energy Conundrum: Power Failure

- **Formulate an effective bargaining strategy to ensure a global reduction in CO_2 emissions.** In this context, it would be preferable to extend the UN ETS mechanism, which currently covers only 30 percent of emissions, to the whole world.
- **Establish a European energy union with a single market that does not discriminate against suppliers from other countries.** This includes the principle of one price, which enhances efficiency and energy security for all EU countries and can be achieved via improved and more interconnected energy grids. The single energy market should be supported by the European monitoring of national energy policies to ensure mutual consistence, with penalty procedures for measures that are incompatible with a fundamental Europe-wide commitment to sustainable energy on a global level.
- **Eliminate fixed feed-in tariffs as incompatible with a Europe-wide energy strategy.** Such tariffs are incompatible with the single European energy market, inter alia because of the principle of one price.
- **Commit to price flexibility in energy markets following the logic of unbundling,** which means separating suppliers from energy producers and delivery systems (pipelines, grids). This would reduce monopoly power, hence increase competition and price flexibility.
- **Provide public investment in the enhanced connectivity of energy networks like gas pipelines and power transmission lines.** The principle of one price enhances efficiency, but requires more interconnected energy networks, which calls for investment. Given the widespread post-crisis sentiment that Europe should initiate large infrastructure investment projects, member states could coordinately fund new energy transmission channels, including both electricity gridlines and gas pipelines, with public, or a mixture of public and private capital.

Chapter 3 European Regional Disparity: Borders Strike Back

- **Coordinate policy reforms across euro area countries.** Uncoordinated policy reforms in individual countries always affect the resource allocation across countries. However, when uncoordinated reforms are pursued in countries linked by flexible exchange rates, they are often coordinated *de facto* by adjustments in the exchange rate. This mechanism is absent among members of a monetary union. Hence, the lack of policy coordination can be very costly in a monetary union, as shown by the European sovereign debt crisis. The coordination of policies with strong redistributive implications is hard to achieve. However, an explicit framework for assessing the euro area implications of policy reforms of individual member states should be created at the very least.
- **Design cross-regional policies for structural funds and employment to exploit potential spillovers between neighbouring regions.** EU cohesion policies target regions. However, the evidence suggests that, despite the EU's regional approach, country specific effects tend to dominate regional ones when it comes to regional disparities. This is partly because existing policies do not take into account cross-regional spillovers and complementarities. Hence it is important to enhance existing EU policies with cross-regional and regional level cross-national policies.

Chapter 4 Migration in the European Union: Too Much of a Good Thing?

- **Uphold the principle of the free movement of people, and discourage the use of overheated rhetoric in migration debates.** Economies absorb changes in the labour force better than people realise. The scale and costs of "welfare tourism" have been overstated. Nonetheless, rules that seem unfair may create social and political problems.
- **Use available instruments to limit recent migrants' access to welfare benefits.** The insurance principle of social insurance should be strengthened, and strict criteria of availability for work as a condition of receiving benefits should be adopted. A home country principle for welfare benefits could be introduced to replace the current residence principle.
- **Foster the economic development of poorer members.** Migration will naturally slow down as new member states catch up to older members economically. The sooner incomes converge across the union, the sooner the pressure of migration will dwindle. Although regional convergence in old member states raises various issues, which we discuss in our regional chapter, most new member states have been growing faster than the old ones since they joined the EU, suggesting that income convergence is taking place.