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Strengthening convergence in the eurozone

A pragmatic approach

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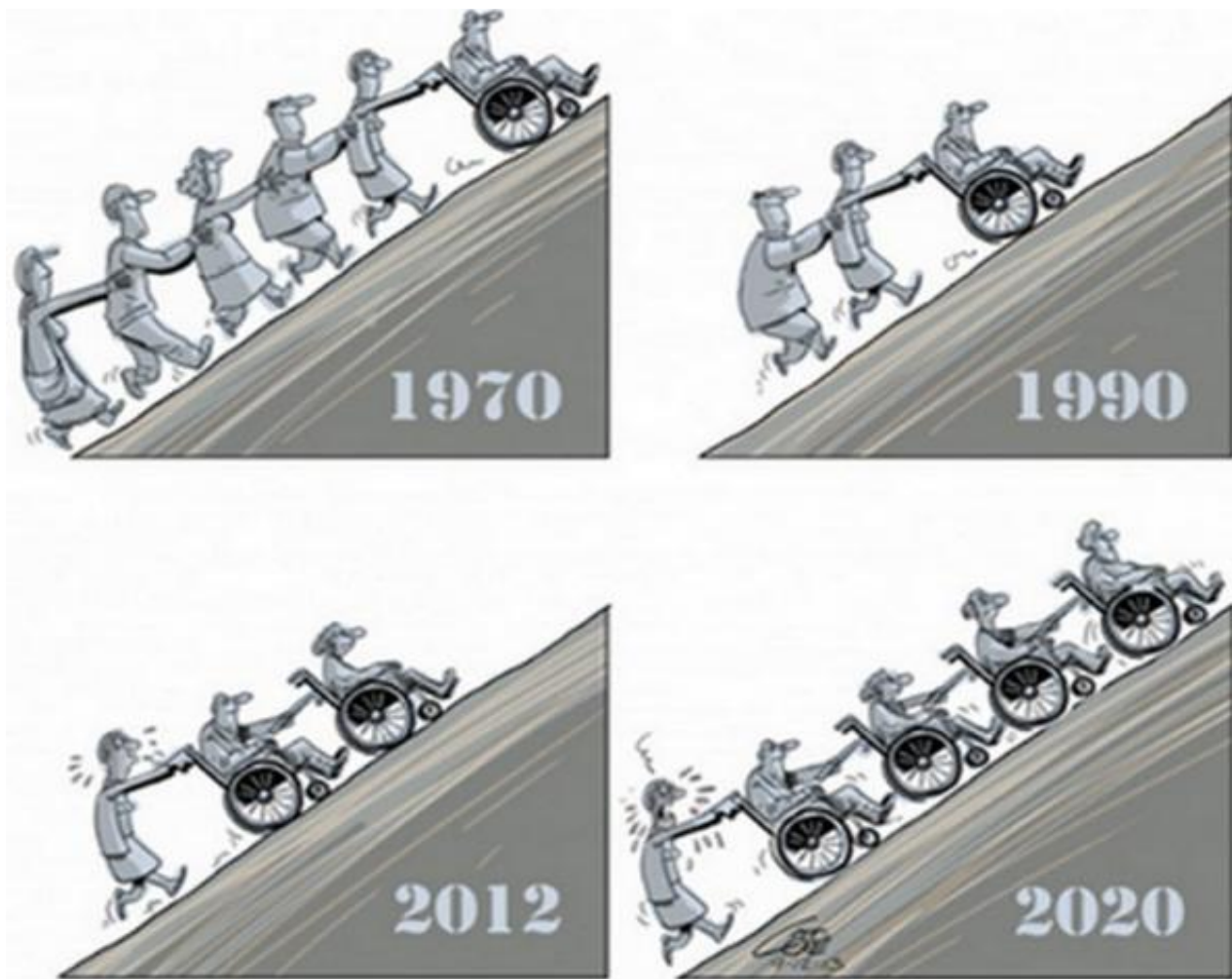


The problem:

European integration is under pressure

- European Cooperation is in danger
- The Brexit may be a catalyst for further desintegration
- (Youth) Unemployment is too high, especially in Southern Europe
- The policy mix is unbalanced, with too much emphasis on austerity in surplus countries and too little reform in some of the other countries
- Monetary policy is losing its effectiveness
- There is no consensus on the way ahead
- Potential growth is under pressure because Europe is ageing...

The challenge of ageing: are you ready?



Source: Lukas Daalder's best of the web

Analysis:

Why is Europe so unpopular?

- Europe has failed to 'sell itself' to the population.
- National politicians abuse Europe as a scapegoat
- The policy guidelines are too strict, especially in times of crisis
 - Monetary policy: no monetary financing allowed. How about QE?
 - SGP: much emphasis on public finances, blind eye for private sector
 - SGP: no credible sanctions
- Some countries should never have entered the eurozone
- Many countries are lagging behind in labour market and pension reforms
- Bond markets are vulnerable for market pressures
- Economic integration produces winners and losers. The losers deserve more attention and support.

Solutions

- Better communication of positive results of European integration. Politicians should be fair and stop abusing Europe
- A more pragmatic approach towards economic policy is important, introduce more flexibility in times of recession
- Some countries should be given the opportunity to rethink eurozone membership. **However, this is extremely difficult!**
- Countries should increase the speed of reform in order to improve their long-term growth potential and sustainability of public finances
- Common financing of public deficits by using **conditional** eurobonds is essential for stabilisation of financial markets.
- Improve labour market flexibility, access to, and quality of education and social security to help people to adapt to change

In the short term: please be pragmatic

- Pragmatic approach is essential: for the time being no grand views of Political Union, please!
- Prevent unnecessary damage and preserve what is essential:
 - Above all the Internal Market, as the most important growth engine
 - The eurozone as well, but give member states a one-off option to rethink membership
- A grand bargain between member states would help/is essential:
 - Surplus countries should increase public spending and/or reduce taxes
 - Countries that lag behind should pursue structural reforms
 - Improve labour market flexibility **and** social security
- Open debate on reform of SGP and monetary policy
 - Under well-defined conditions: more fiscal flexibility under SGP
 - Under even stricter conditions: monetary financing during liquidity traps?
 - Investigate the potential of conditional eurobonds

Concluding remarks

- The best medicine against euroscepticism is higher economic growth, higher incomes and more and better jobs
- The best engine for more convergence is also higher growth, more cross-border labor migration, more fiscal integration and more cross-border direct investment ==> steps towards becoming an OCA.
- However, for the time being this is too far removed from the political sentiment. In today's environment, consolidation comes first.
- The preservation of the Internal Market and EMU is essential, financial stability is an important precondition
- The current situation is in the end not sustainable

Thank you for your attention

The background features several overlapping concentric circles in shades of gray, creating a ripple effect. A solid blue horizontal bar is positioned across the middle of the image.

Dank u voor uw aandacht

• *Vragen?*

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