



***If fiscal union is possible(?),  
why not economic.....?  
(10 questions on how to improve European economic  
integration)***

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# Some European integration history to start with...

History of European Integration dominated by Economic Integration

Starting point: European Coal and Steel Community (Treaty of Paris ,1951)  
created a common market for coal and steel

*Article 2: „...to contribute, through a common market for coal and steel to economic expansion, growth of employment and a rising standard of living“*

*No customs duties or taxes, prohibition of discriminatory measures or practices, subsidies, State aid, restrictive practices...*

Followed by European Economic Community (Treaties of Rome ,1957),  
EFTA, EEA.... building on (partly supranational) Economic Union principles

- ▶ Since WWII dominant perspective of European Integration
- ▶ Origin of European Institutions as we know them today
- ▶ Who wants to get back to pre-Economic Union?



# Which theoretical options for Economic Integration?

1. Preferential Trading Area (reduced customs tariffs)
2. Free Trade Area (no custom tariffs on some or all trade)
3. Customs Union (same external tariffs plus common trade policy)
4. Common or Single Market (free movement plus common product regulation)
5. Economic and Monetary Union (Single Market plus common currency and monetary policy)
6. Complete Economic Integration (all plus harmonized fiscal and economic policies; plus supranational institutions and organization?)

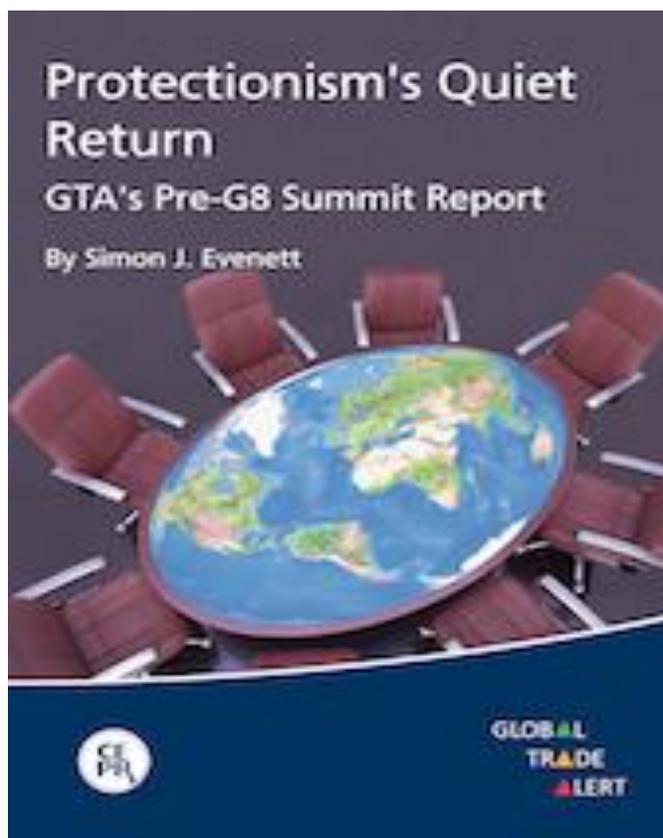
▶ *European Union is most advanced form of Economic Integration globally already (more or less stage 5)*

▶ *Panel title: why not move from 5 to 6?*

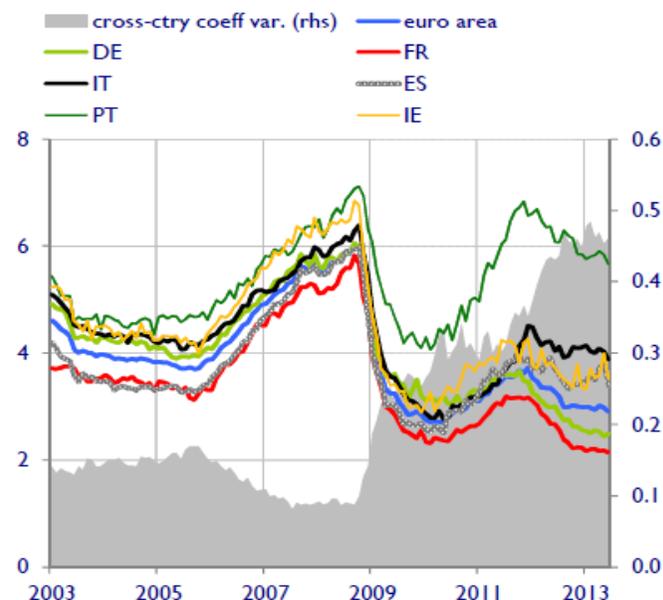
▶ *Main open issue: how much coordination of policies is possible?*

# Any consequences because of the crisis?

- ▶ Increasing **fragmentation** of markets
- ▶ Rise of **new economic nationalism** (e.g. crisis measures?)
- ▶ Risk of return to „**beggar my neighbour**“ policies (globally+European?)



**Cost of bank lending indicators to NFCs** (percentages per annum; three-month moving averages)



Source: ECB, MIR Statistics, ECB calculations. – Notes: The indicator for the total cost of lending is calculated by aggregating short and long-term rates using a 24-month moving average of new business volumes. The cross-country standard deviation is calculated over a fixed sample of 12 euro area countries. Latest observation: June 2013.

## How to deal with the “Principle of Subsidiarity”?

Article 5 TEU regulates competences between EU und national states:

(1) The limits of Union competences are governed by the principle of conferral. **The use of Union competences is governed by the principles of subsidiarity** and proportionality....

(3) Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, **but can rather**, by reason of the scale or effects of the proposed action, **be better achieved at Union level.**

▶ *Calls for a differentiation between areas, forms and levels of coordination in integration: fiscal vs structural, EU vs national, community vs intergovernmental...*

▶ *To what extent useful in a globalized world?*

# What do the „Guiding Principles“ intend?

## Article 119 TFEU :

- Member States shall include the adoption of an economic policy which is based on the **close coordination of Member States' economic policies**, on the internal market and on the definition of common objectives.

## Article 121 TFEU:

- Member States shall regard their **economic policies as a matter of common concern** and shall coordinate them within the Council,..

## Article 136 1b) TFEU:

- In order to ensure the proper functioning of economic and monetary union, the Council is enabled to adopt measures specific **for euro area Member States**
  - ▶ to strengthen the coordination and surveillance of their budgetary discipline;
  - ▶ to set out economic policy guidelines for them

# Anything new on policy guidelines?

## Broad economic policy guidelines

**Guideline 1: Ensuring the quality and the sustainability of public finances**

**Guideline 2: Addressing *macroeconomic imbalances***

**Guideline 3: *Reducing imbalances* within the euro area**

**Guideline 4: Optimizing support for research, development and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy**

**Guideline 5: Improving resource efficiency and reducing greenhouse gases**

**Guideline 6: Improving the business and consumer environment and modernizing the industrial base**

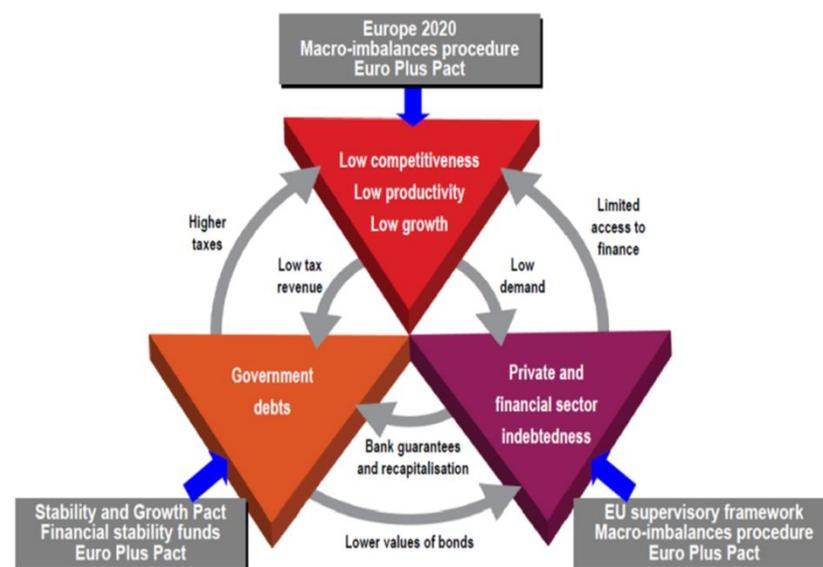
## European employment guidelines

**Guideline 7: Increasing labor market participation and reducing structural unemployment**

**Guideline 8: Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning**

**Guideline 9: Improving the performance of education and training systems at all levels and increasing participation in tertiary education**

**Guideline 10: Promoting social inclusion and combating poverty.**



## In need for more “Economic Union” or not?

- In general: in unions that are also organized as banking and fiscal unions **greater risk sharing** mitigates also the impact of imbalances among member countries on macroeconomic and financial stability (IMF).
- Does this imply that the creation of a banking union and a fiscal union are **more powerful instruments than a deepening of economic union**?
- However, **reducing differences in economic performance and structure** of Member States could be achieved by more economic integration.
- **To better position** the EU as a whole for global economic challenges and shocks as well as to make Member States **more resilient** in a crisis and to reduce negative spillover effects and costs.

## Where will present (realistic) plans of the EU to “deepen Economic Union” lead us?

Newly created focus on the “integrated framework for economic policy”:

- ▶ **Ex ante coordination** of major economic policy reforms (pilot on ex-ante coordination of structural reforms, ex-ante coordination of economic policy with spillover effects)
- ▶ the **social dimension** of the EMU (social dialogue, minimum wage floors etc)
- ▶ CCI: mutually agreed **arrangements for competitiveness and growth** of a contractual nature to enhance ownership and effectiveness of structural reforms
- ▶ **Policy areas with potential spillovers:**
  - external economic imbalances.
  - Policy areas for more coordination in the German-French paper of May 2013: labour market, unemployment and social inclusion, retirement policies, product market, general taxation, public sector efficiency (institution and capacity building), innovation and education.

# Why symmetric shocks may have asymmetric effects?

Multiple criteria for integration benefits: in general, countries will profit more from economic integration...

- ▶ the more **open** they are,
- ▶ the closer the **trade links** with the integration area are,
- ▶ the higher the degree of **business cycle synchronization** is
- ▶ the more **flexible** the economy is

Symmetric shocks may have asymmetric effects: because of...

- ▶ different **labor market institutions** (e.g. wage bargaining)
- ▶ different **legal systems** (mortgage markets)
- ▶ different **fiscal systems**
- ▶ different **preferences** about inflation, unemployment...
- ▶ different **institutional/structural settings** of all kinds...

*Historical experience(?): Small open economies with a successful currency peg history seem to be better prepared for integration*

# Which areas of structural policy to be addressed?

## Objectives:

*increase potential output and efficiency of use of factors of production*

## Tools:

*-market functioning, incentives to companies and workers:*

*-entrepreneurship*

*-education, health care*

*-competition*

*-innovation, R&D*

*-tax system*

*-labor market rules*

*-institutional setup*

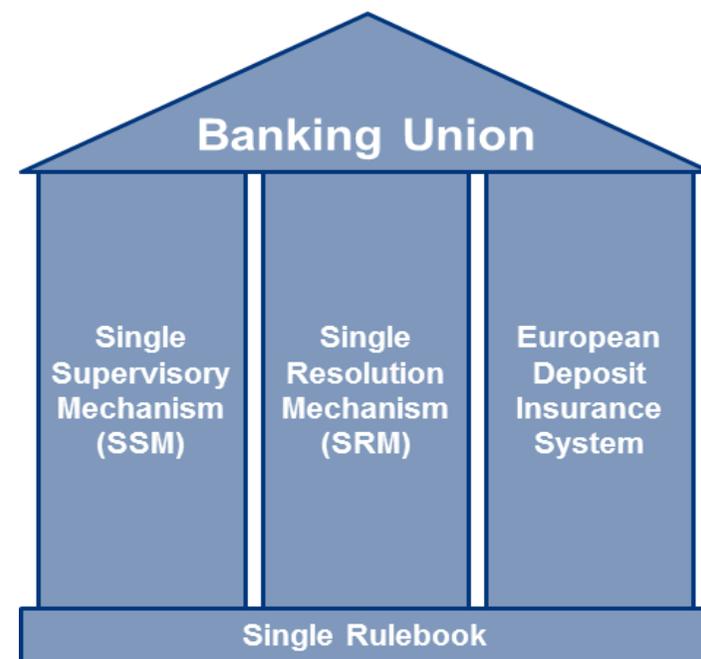
## Intended effects:

*to increase non-inflationary growth trend, international competitiveness and economic flexibility*

1. **Product markets:** e.g. competition policy, regulatory framework for companies, start-ups, and professions, public procurement
2. **Human Capital / Labor Markets:** e.g. R&D and innovation, incentives / disincentives, re-integration of unemployed, flexibility of labor, education and training policies
3. **Capital Markets:** e.g. integration of financial markets, effective (cross-border) supervision, private pension schemes

# Banking Union – where do we stand?

- **Single Supervisory Mechanism (SSM):**
  - Regulation due to be published shortly
  - Preparatory work at the ECB is well under way
  - Will become operational in fall 2014
- **Guidelines for the direct recapitalisation of banks by ESM have been issued**
- **Single Resolution Mechanism:**
  - Bank Recovery and Resolution Directive under negotiation
  - EC Draft Regulation for Single Resolution Mechanism
  - Plan to make system operational along with the SSM
- **European Deposit Insurance System:**
  - No plans yet
  - Deposit Insurance Directive under negotiation
- **Single Rulebook:**
  - CRD IV / CRR are published and will apply from 2014 on



## Any (tentative) conclusion?

Very difficult to draw definite conclusions because....

- ...**broad range** of interrelated issues
- ...**combination** of many challenging economic questions
- ...**intertwined** with many hot political topics

In EU reality, a rather developed economic union exists, albeit with **very heterogeneous patterns of implementation in different countries** – augmented by new institutional structures and instruments (e.g. MIP) in the course of the crisis

To conclude with: **3 particularly important aspects to be stressed**

- Are we sure we know exactly **what we mean** by structural reform and do we have the same (ideal theoretical) world/model in mind?
- How to deal with existing differences in **national preferences** in a setting of subsidiarity (in a world of spillovers)?
- **When to do** structural reforms successfully: Facilitated or more difficult in times of crisis?

# Structure and Structural Change: Weaselword and Jargon (Fritz Machlup, 1958)



## Structure and Structural Change: Weaselwords and Jargon

Von

Fritz Machlup

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The existence of homonyms in scientific as well as in everyday language raises no problem when the separate meanings of the same word are sufficiently different to make confusion impossible in the context in which the word is used. If we economists, for example, use the word „labor“, no reader or listener will ever think of the painful muscle contractions preceding childbirth, and if we say „capital“ he may not know precisely what we mean, but he will rarely confuse it with the seat of government in a state or country.

If the separate meanings of the same word are closely related, overlapping, or otherwise ambiguous so that the context cannot be relied upon to indicate which meaning is intended, the writer or speaker has a moral duty. I would say, to state what he means. Often he can do so quite easily and briefly, perhaps upon the first use of the word or phrase in question, provided he uses it consistently. To use it sometimes in one meaning and sometimes in a different meaning without due warning and clarification, is inconsiderate and mischievous. A thoughtful scholar will either look for less ambiguous terms as substitutes or will use adequate modifiers to remove the possibility of misunderstanding or doubt on the part of his audience.

If most of the various meanings of a word are undefined and vague, not merely lacking precision<sup>1</sup>, but so obscure that the writer or speaker could not succeed in conveying a definite meaning, then the use of the word should not be condoned. Of course, a word may have some clear and definable and some undefinable, obscure meanings; in this case its use is permissible where the meaning is clear, but not where clear understanding cannot be expected.

If a word is used not to convey any clear meaning at all, but rather as a screen to hide muddled thinking, or perhaps to becloud issues and

<sup>1</sup> We may not know how quickly the air moves and how high the sand is piled up if we are told about a „wind“ and about „sand-dunes“ — to borrow from K. R. Popper examples of words lacking quantitative precision — yet we know what is being talked about. The vagueness or obscurity to which I refer in the text is of a different nature: there we do not know what is being talked about.



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