

## WHAT KIND OF CONVERGENCE FOR THE ECONOMIC AND MONETARY UNION?

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Facing the aftermath of last years' economic crisis, many people demand a greater convergence of the Euro countries. The Five President's Report of June 2015 supports this demand, suggesting that further integration steps like a treasury or a macroeconomic stabilization function require a more homogeneous Euro area. However, as it is obviously crucial to discuss the implications and competing visions regarding a possible implementation, the Federation of German Industries (BDI) and Konrad-Adenauer-Stiftung Brussels jointly invited economical experts for an exchange of views. The event is part of a series of discussions on the topic of "Economic Monetary Union" that are supposed to offer a platform for debate and a fertile exchange of thoughts. Following a brief presentation on a BDI theses paper presented by Dr. Klaus Günther Deutsch and Dr. Wolfgang Eichert, Mr Reimer Böge (MEP and rapporteur of the initiative report on a Euro area budget), Mr Marco Buti (Director General of DG ECFIN, European Commission) and Mr Klaus Masuch (Convergence & Competitiveness Division, European Central Bank) commented on this issue.

In order to introduce the topic and to kick-off the debate, Dr. Eichert gave a short presentation summing up the major BDI's findings. Their theses suggest that the recent crisis offers a chance to tackle existing problems with compliance and to discuss how the framework should look like. He

evaluated that till this day, there is little evolvement of convergence. The question remains of how to construct convergence for the European Union and how the mechanism should effectively be designed.

Dr. Eichert pointed out that there is a danger of instability and spillover effects. Thus, the existing instruments are seen as insufficient. He regards the so-called "three C's" as current problems: Complexity of the rulebooks, weak compliance with the rules (controllability) and comparability. According to the expert, the national ownership is weak. Thus, Dr. Eichert recognized a huge implementation gap, leading to the question of how to construct a framework for the European Monetary Union. He listed six criteria for a successful reform:

- 1) Strong impact on growth potential and productivity
- 2) Limiting the number and the simplicity of rules
- 3) Focus on areas that are purely EMU-related
- 4) Easy measurement of the indicators
- 5) Direct or strong indirect control by national policy makers
- 6) Strong accountability and credible sanctions

Eventually, Dr. Eichert pointed out that there is no sufficient solution on these issues yet and thus, handed over to our speakers:

Mr Buti began his statement by acknowledging the fact that convergence is a com-

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plex issue which allows no simple solutions. Controversial aspects are the definition of compliance, which is rather vague, experiences with convergence and which key elements are needed in order to foster convergence within the Monetary Union. According to Mr Buti, the Maastricht treaty brought nominal convergence only, although its founding fathers did not just want a single, but a stable currency. The measures were sought to be non-discriminatory and there was no unique social model to be imposed. However, the Director General judged the expectation of a resulting convergence as a rational idea basing on economic theory. They hoped for an increase in trade, turning nominal convergence into real convergence.

Generally speaking, Mr Buti conceives many of the current problems as rooted in the first ten years of the monetary union. Whereas economic cooperation in the northern countries, especially in the Euro zone, grew and competitiveness increased, difficulties in the southern countries arose. Fundamental differences were exposed. Moreover, political difficulties affected the convergence process for over ten years, as well as the demand side of economy and social and economic preferences in the member states. These factors built the basis for mistrust between the member states, which was finally exposed by the crisis. Necessary, yet painful adjustments in the periphery of the Euro zone seemed to be asymmetric. Still, the adjustments of structural convergence made in the aftermath of the crisis are adjustments that would actually have already been needed in the first part of the crisis.

However, Mr Buti made it clear that structural convergence would not mean that all countries are supposed to become similar to Germany, although they certainly could benefit from adopting certain institutions, best practices or financial systems. He sug-

gested to step ahead on a number of reforms, reduce pressure on risk on budget and claimed the need for price stability and better conditions on the monetary side. All these measures would not be popular, but definitely necessary. Concluding, Mr Buti said that a deeper, more integrated system would help to smoothen shocks more effectively than just a mere budget would be able to. He saw a capital market union as essential for a well-functioning Monetary Union as it would reduce problems and help recycle via equity instead of debts. Finally, Mr Buti pleaded for solid adjustments in order to gain competitiveness.

**Mr Masuch** agreed on the need for major reforms. He posed the question how to advise on a national and European level. The measures are not supposed to lead to a full harmonization, but enable reforms in infrastructures and private investments. Mr Masuch said that the countries individually established measures that are not always designed similarly and differ in effectiveness. He agreed that reforms need to be done, although they are not popular. The representative of the European Central Bank criticized a misunderstanding of the European Monetary Union in the German debate: As a matter of fact, both prices and wages in Germany are higher than in other Member States of the European Union, which leaves Germany relatively richer than other Member States. Moreover, Mr Masuch stated that the GDP/capita were not the only measure instrument. He would recommend making use of measures referring to a boost in GDP, wealth or subjective well-being. Since 2007, growth in the EU was faster than in the US before the crisis, meaning the EU is catching up again. Still, he sees a big gap of institutional quality within the EU. According to Mr Masuch, there is the strong need for improved incentives and reforms. If you want to strengthen support for Europe, you need to fight corruption and you

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need to improve the performance of the public sector.

**Mr Böge** remembered the participants of the pending committee meeting where a draft for a resolution would supposedly be adopted. Turning the discussion to a political and democratic perspective, Mr Böge remembered that outsourcing could lead to a legal and therefore, democratic lack. Generally speaking, he noticed a lot of mistrust, among citizens and among Member States. From his point of view, the European Union is mostly not perceived as solution to the problems caused by globalization, but as part of it. European politics would be too far away from the citizen's daily lives.

Especially regarding the different scientific positions, he urged the European Parliament to clarify and to discuss how to regain trust and build up new confidence. Moreover, he saw the need to improve and to take care of full implementation of already existing instruments rather than to establish new regimes. Mr Böge spoke out for clear structures and controls as well as progressing step by step along a clear roadmap. He also demanded more evaluation programs. According to him, some countries lack the structures to benefit from EU reforms or even implement them. Still, he wants to keep national parliaments as sovereign as possible and leave them a say, enabling country specific recommendations as well.

As a critical comment and referring to a lack of solidarity, the MEP asked if we really have the time for making slow adjustments and whether the European Monetary Union is really prepared for the next crisis. However, at the same time he sees a lot of room for improvement and thinks it is just a question of political will. Mr Böge concluded by saying that a clear orientation and commitment is needed.