The Brussels Economic Forum, 4-5 May 2000
Proceedings

Table of contents

Synthesis of the sessions

The main purpose of this new forum is to increase the transparency of the decision making process in the economic policy field. By exposing the Commission's recommendations and some results of the DG ECFIN's work to the assessment and critics of the professionals of the economy, this forum opens a technical dialogue which contributes to make the Commission's services more accountable to their peers.

The Brussels Economic Forum was launched by an **opening address** of the President of the European Commission, **Romano Prodi**, who welcomed the initiative of the conference, stressed the necessity to understand the economic changes that were underway in Europe and gave replies to questions from the audience.

Session 1 of the Brussels Economic Forum was devoted to the short-term economic outlook. The intention was to set the economic framework in which the policy issues, to be discussed in the following sessions, are inserted. The Commission Spring forecasts were presented, focusing on the accelerating momentum of growth with a strong job creation in the stability framework of the EMU conducive to a sustainable growth process. Discussants validated the Commission forecasts, namely on the assessment of the balance of risks, both external and internal. The panel saw a positive risk in underestimating the present momentum, some of them indicating that the US economy could continue to growth more than expected. The general discussions with the audience referred mainly to the new economy and to the need for further reforms in European economy in order to reap the full benefit of the euro and of the cyclical recovery. The weakness of the single currency did not appear as a major concern for the participants since the soundness of the fundamentals and the EMU policy-setting were generally considered as adequate.

Session 2 focused on the conditions for sustainable growth and on the appropriate economic policies. DG ECFIN examined the growth potential in a historical perspective, explaining that the major macroeconomic obstacles to growth are mainly solved now thanks to the completion of the convergence process of the EMU. The medium and longer term prospects for economic growth have now become more favourable. Furthermore, high unemployment and relatively low participation rates can also be considered as factors of potential growth. However, this potential can only be exploited if companies offer more jobs and if the labour force meets the required qualifications. The prospects for job-creating investment in new production capacity are favourable, not least because profitability has been and may be expected to remain favourable, as are the prospects for demand. Higher investment and new technologies are underpinning total factor productivity. In order to benefit sustainably from these opportunities, it is essential (i) to ensure the appropriate macroeconomic policy mix in a stable monetary environment and (ii) to pursue the necessary structural reforms. The discussants provided critical and complementary views, insisting more on the need for implementing quickly structural reforms in addition to the macroeconomic strategy. In particular the ECB insisted upon the fact that macroeconomic policies cannot be used to mitigate the main causes of European unemployment. In particular, ex-ante co-ordination amongst the main actors of the policy mix would be counterproductive for the growth process by confusing the responsibilities and reducing the accountability of individual policy-makers, increasing the risk of moral hazard. Reminding the responsibilities under the

"Maastricht assignment", the ECB explained that respecting the allocation of responsibilities in a permanent dialogue between individual actors, is the best contribution to growth and employment that can be expected. Any activist or pro-cyclical monetary policy would undermined the prospects for long-term growth. The role of structural reforms was generally underlined by the rest of the participants to the panel, but with some divergences of views in assessing their exact weight and effective realisation. The role of the Social Partners was also discussed.

Session 3 covered the centre piece of economic policy co-ordination in the European Union. The Broad Economic Policy Guidelines (BEPGs) have been adopted each year since the start of Stage 2 of EMU. Over the years, the BEPGs have been developed into a comprehensive policy strategy, including recommendations tailored to country-specific needs and circumstances. The Commission exposed that its 2000 BEPGs are centred on the conclusions of the Lisbon Special European Council. With a view to securing the transformation of the current recovery into a prolonged, strong, non-inflationary economic expansion, they focus on a balanced and comprehensive strategy aimed at promoting economic growth potential, employment and social cohesion as well as on the transition towards a knowledge-based economy. The Commission pointed to the need to consolidate national budgets further than targeted in the stability and convergence programs. With a few nuances, the discussant panel regarded the Commission's 2000 BEPGs as an appropriate strategy to meet the Union's and the Member States' key economic challenges. It was often underlined that the problem was how to ensure the effective implementation by Member States, especially for preventing the risk to fall once again into pro-cyclical budgetary policies and too complacent recommendations.

This first version of the Brussels Economic Forum led to the consensual conclusion that such a kind of open dialogue amongst the economists provides a useful technical way to generate "checks and balances" to the people in charge of economic policy surveillance.

Session N° 1: Economic Prospects for the Community, Thursday 4th May 2000

Chair:

- Sir Samuel BRITTAN, The Financial Times

Speakers

- Antonio Jose CABRAL, Director, DG ECFIN, European Commission
- Prof. Ray BARREL, National Institute for Economic and Social Research
- Prof. Dr. Gustav-Adolf HORN, Deutsche Institut für Wirtschaftsforschung

Participants:

- Dr. John LIPSKY, Chief Economist, Director of Research, Chase Manhattan Bank
- Prof. Dr TANTAZZI, Director of Prometeia
- Prof. Dr. Joachim SCHEIDE, Institut für Wirtschaftsforschung, University of Kiel

1. The economic outlook: the Spring forecast of the Commission (Antonio Cabral)

Basing his presentation on the recently released Commission Spring Economic Forecasts, **Cabral** stressed the good economic situation and prospects. He argued that the convergence efforts and the realisation of EMU made a significant contribution to the bright outlook and that both external and domestic demand support growth. Strong job creation was to be expected. While wage developments were described as moderate, inflation was said to be under control. Cabral said actual government balances improved (thanks to strong growth and interest savings), but that a loosening of the fiscal stance in 2000 and 2001 should be avoided.

(the text of the intervention is attached)

2. Comments

Comments by **Barrel** and **Horn** generally validated the Commission Spring forecasts, both confirming stronger economic growth than expected in the euro area and the EU as a whole for 2000 and 2001, together with low inflation. The discussants insisted that recovery in Europe was sound, referring to its strong economic fundamentals. **Horn** noted that signs of overheating in some Member States economies should rapidly disappear within the EMU context and therefore be regarded as small positive risks. According to all speakers and participants, the policy framework set up for EMU and the Single Market has generated a stable macroeconomic environment conducive to growth and to making the EU an attractive economic pole for business and investment activity. However, further reform in financial, product and labour markets was put forward as a necessary condition for a full realisation of the EU's economic potential. Consensus was found on the issue of public finance, discussants seeing advantages in maintaining fiscal discipline (budgetary consolidation) while macroeconomic conditions clearly favoured and facilitated such behaviour. The panel saw a positive risk in underestimating the present momentum.

the appropriate action.

Although also concerned by the 'hard landing' scenario of the US economy, **Barrel** de-dramatised the effects of a stock market crash in the US. According to him, risks in the US equity markets existed but corrections were underway. Consumers have not considered the stock market gains as permanent so that also a downward adjustment will have a limited impact. Barrel further noted that in case of a strong fall in equity prices, the resulting dollar depreciation (euro appreciation: less inflation, lower interest rates) might actually support economic activity in Europe. In his analysis of external demand, the speaker assessed the impact of a further increase in US growth on the EU economy. Although no great leap forward of the US economy was envisaged, Barrel said deceleration in US growth might actually be less than expected. This, in turn, would result in less activity in Europe with further weakening of the euro and renewed pressure on prices. In the face of sustained US growth, raising external demand and spare capacity in Europe, Barrel said expansionary fiscal policy in EU Member States was to be envisaged for the coming years, together with rising interest rates. Barrel concluded that although current economic activity showed no significant risks of inflation, small pressures were appearing and required attention. The speaker expressed no concern about oil prices, which he expected to fall.

Reaction of the panel to the weakness of the euro was generally limited. While speakers recognised that depreciation of the European currency had inflationary consequences through its impact on import prices, all recognised that this phenomenon should be weaker than expected thanks to the EMU. Referring to the recent decisions of the ECB to raise interest rates, **Horn** insisted that little effect was to be expected and that policy makers would be best advised to focus their attention on the clearly improving economic fundamentals of the euro area.

3. Discussion

Among the downward risks surrounding the economic outlook of the euro area and the EU as a whole, speakers identified the hard landing of the US economy as the main negative risk. In particular, **Scheide** feared that in the absence of a correction in US financial markets, there could come an end to the Federal Reserve Bank's 'gradualism', giving way to sharp corrections in stock markets and negative spill over effects to the European economy. If such a scenario materialises, Scheide questioned whether the ECB would be able to take.

(the text of the intervention is attached)

With respect to employment figures, **Tantazzi** noted that the Commission's forecasts hide some important regional disparities. The latter, he said, resulted mainly from the lack of inter-regional mobility. Tantazzi argued that unemployment in Europe was mainly structural and its evolution closely linked to the future reforms that were to take place in the European labour market. The speaker said that the scheduled elections in a number of Member States were likely to make progress in reforms difficult.

When assessing the EU output gap, speakers remained mixed, finding it hard to give a clear definition of the ECB ‘neutral policy’. **Scheide** expected that the Bank would wait for the realisation of a positive output gap to raise interest rates.

Lipsky agreed with Barrel that there was no clear sign yet of economic slow down in the US and that the ‘hard landing’ scenario should therefore not be overdone. According to the speaker, EMU has greatly contributed to making the EU an attractive economic region, but further improvements were clearly possible. These would be best achieved through further reforms in financial markets (increased flexibility, increased transparency) which were likely to contribute to the creation of new forms of venture capital and interesting merger and acquisition activities between American and European firms. **Lipsky** noted that from an American point of view, lower productivity in Europe compared to the US and untested institutions, remained important drawbacks of the European economy.

(the text of the intervention is attached)

During the debate, a number of questions referred to the new economy and as to whether the EU could reinforce its position through the development of this new sector. Answers generally converged in saying that no clear definition of the ‘new economy’ existed, making the distinction with the ‘old economy’ difficult. **Scheide** noted that, even if the new economy existed, its size in the US and the EU was still small and its short-term impact on the European activity therefore negligible. While **Lipsky** recalled that economic performance in the US was led by investments, speakers generally agreed that enhancing European economic performance would best be served with further financial, product and labour market reform. **Barrel** noted that some interesting developments were taking place in the US new economy and useful lessons were to be learned, but he was not sure to what extent everything was linked to the information society. Labour market reform and changes in the trade union framework, tend to favour ‘product’ innovation (a characteristic of the US) rather than ‘process of production’ innovation (a feature of the EU).

Session N° 2: Growth, Employment and Structural reforms:
Transforming the Recovery into a Process of durable, employment-creating Growth,
Friday 4th May 2000

Chair:

- Philippe SIGOGNE, Observatoire Français des Conjonctures Économiques, Paris

Speakers:

- Ludwig SCHUBERT Deputy Director-General, DG ECFIN, European Commission
- Prof. Dr. Otmar ISSING, Member of the Executive Board of the European Central Bank (speech delivered by Mr. HOGEWEG, Director-General, European Central Bank)
- Prof. Paolo Onofri, University of Bologna

Participants:

- Prof. Miguel BELEZA, Universidade Nova de Lisboa
- Daniela ISRAELACHWILI, Deputy Secretary-General UNICE
- Mr. FODEN, ETUC
- Mrs. Ellen VAN DER GULIK, Vice-President Economic Research, JP MORGAN

1. The conditions for growth and employment in the Community (Ludwig Schubert)

Growth performance in the 1990's was disappointing, began **Schubert**. The second half of the 1990's saw some improvement in job creation, but the decade was mostly one of necessary stabilisation in the fields of inflation, public deficits, labour costs and profitability. According to Commission calculations, profitability in the EU stands currently at 8-9%, hardly under that of the US (10-11%), while it reaches 15% in Ireland. Cost-competitiveness today in the EU is excellent. Incidentally, Schubert wondered whether the national output gap concept is still meaningful in a common market with a single currency. Turning back to the dismal growth performance of the 1990's, Schubert explained it was due to successive growth obstacles and not to structural or deep-rooted problems. In 1993, occurred a "stabilisation recession", due to economic policy mistakes that found their origins in 1988 when a too accommodative policy mix led to overheating in the early 1990's. In 1994-95, the European recovery was strong and sound, but was affected by the side effects from the Mexican crisis (currency turmoil) at a time when the single currency was not yet achieved. In 1998, the international financial crisis gave another, albeit limited, blow to the recovery. Schubert acknowledged that there exist several structural problems in the EU economy such as insufficient wage differentiation, rigidities on the labour market, or the rise in non-wage labour costs, but he insisted that they are not the cause for European slow growth in the 1990's.

Schubert then turned to the growth potential of the EU by addressing three issues: productivity, labour force and capital investment. Productivity is a function of technical progress, investment and labour/capital substitution. Pointing at the rise of labour productivity growth in the US over the last five years, the speaker noted that it remains close to the one of the EU economy when one looks at hourly productivity.

The labour force reserve of the EU amounts to around 30 million people according to Schubert. Registered unemployment represent currently about half of this figure. EU unemployment can be split into three categories:

- cyclical unemployment, which results from a lack of total demand relative to productive capacity;
- non cyclical unemployment, which corresponds to the lack of employment posts at given real labour costs;
- long term unemployment, which is estimated at about 5% of the labour force, where some training is necessary to restore job seekers' employability.

Unemployment according to categories 1 and 2 can be shrunk relatively easily provided that a strong and sustained investment-based recovery takes place.

The potential growth rate in the EU is estimated at around 2.5%, but this figure is not fixed. It depends on the capital stock and therefore on investment. If GDP rises by 3-3.5% per annum, investment by 8% and private consumption by 2¾%, and if this sustainable trend can be maintained over several years, then full-employment can be achieved. The 'Irish miracle' where GDP growth averaged 6.7% over the last 10 years was put forward by Schubert as a case study. Raising the employment rate (currently at the low level of 62% in the EU) can also help solve the ageing issue.

Schubert mentioned some risks which might cloud his 'perfect economy' picture. As to the external risks, nothing can be done from the EU side. Conversely, as to the domestic risks, he noted that Monetary Union and the Stability and Growth Pact make a framework that reduces notably the risks of economic policy mistakes. Finally, he made a strong plea in favour of euro-optimism and urged policy makers and economic agents to have more faith in the capability of the European economy.

(intervention scheme is attached)

2. How to achieve durably a macroeconomic policy mix favourable to growth and employment (Otmar Issing, speech delivered by Mr. Hogeweg)

The speech made the following main points.

- Economic conditions in the EU are presently good, but unemployment, mainly for structural reasons, remains high.
- Nothing can be expected from an ex-ante macroeconomic policy cooperation, as the proper approach to macroeconomic policy was difficult to recognise. Binding co-ordination would blur the respective responsibility of institutions and co-ordinated approaches were sometimes difficult to implement and to enforce in the Member States. The provisions of the Maastricht Treaty and the Stability pact are a sufficient basis for the joint operation of the different institutions, each responsible for their macroeconomic policy.
- Monetary policy had the goal of price stability (not price targeting) and should not be used for fine tuning macroeconomic policy.
- Structural problems persist mainly in the field of labour markets and taxation. Macroeconomic policy is not geared to solve these problems. Europe has a potential for growth if it pursues its path towards a knowledge-based economy, liberalises markets,

achieves a single market (particularly for capital) and sets an appropriate policy framework in Europe.

- The IMF criticism of too tight monetary policy conditions in Europe is rejected, as economic conditions are presently good and the main weaknesses lie in labour market rigidities.

(the text of the intervention is attached)

3. Structural reforms favouring growth and employment (Paolo Onofri)

According to Onofri, ageing is the main problem of the EU economy. In order to cope with it he stressed both the need of a new phase of capital accumulation and increase of the employment rate. According to his view, social and political cohesion will be a very delicate topic in the near future because the current generation is faced with a difficult task: it is asked to pay the public debt of the past, to work longer and, moreover, to save more in order to help financing its future pensions. To foster employment creation and favouring growth, the following main points were raised.

- More competition in the service sector as a structural factor for a higher level of employment;
- Higher labour flexibility which will also require more competitive product markets (leading to lower prices) to support household disposable income;
- Transfers to the service sector to compensate the effects of its lower productivity and to help service prices to decline enough in relative terms in order to support their demand;
- More decentralised wage bargaining and the reduction of social contributions on low-skill workers in order to support the reallocation of resources and allow a permanent increase in the labour input per unit of GDP;
- Reduction in current superfluous solidarity, i.e. tighter tests for benefits, reduction in distorting solidarity transfers.

4. Discussion

Beleza gave a somewhat critical view as regards the medium-term outlook for the European economy. Whereas the short-term outlook was good, it was rather unlikely that full employment (as defined by an employment rate of 70 % and the reduction of the NAIRU) could be reached in the medium term. Whereas liberalization and integration of product markets had made good progress, reforms of the labour markets remained timid.

(slides of the intervention are attached)

Israelachwili pointed to the large geographic differences of labour markets in the EU. According to her, it was important to create jobs in order to tackle unemployment. In the medium term four issues had to be addressed in order to enhance the labour market performance: raise the employment rate, reduce taxes (particularly on labour), make the labour markets more flexible and raise employability. She stressed flexibility, wage differentiation, tax and social security incentives to take up employment, a better employment protection legislation and more education and training.

Foden stressed that he shared Schubert's assessment rather than the one by Israelachwili and Hogeweg. He fears that the ECB might stop the recovery by excessive tightening. NAIRU is, in his view, a useless tool as difficult to define and to measure. The reform of the unemployment systems and the re-integration of long-term unemployed should be pursued. As regards the issue of lacking mobility of the workforce, the issue of housing prices and transferability of workers' rights should also be considered.

Van der Gulik gave a relatively optimistic outlook for European labour markets. The European labour market is not functioning as badly as is sometimes argued in the EU. In her view, unemployment is mainly of cyclical nature. Labour market rigidities do exist, but they already existed in the sixties when Europe enjoyed full employment. Furthermore, a certain improvement of structural factors is already to be registered.

Brittan (Financial Times) raised again the problem of ageing and, stressing the positive role of market forces, launched the provocative concept of a Europe without social partners.

Questioned about the ECB monetary policy, **Hogeweg** (ECB) stressed the primary role of the ECB as a guardian of price stability. He argued that sometimes this task could be very difficult due to the uncertainty concerning both the statistical information available and real economy reactions. Once again, he stressed that the ECB does not see any trade off between price stability and growth.

Israelachwili (UNICE) insisted on the necessity to change labour market institutions. She was very sceptical about job creation coming from the implementation of the 35 week hours in France. Questioned about the likely increase of income inequality due to diminishing public intervention, she answered that a little more inequality in the EU could be useful both for growth and job creation.

Beleza (Universidade Nova de Lisboa) argued that demand management policies can do very little to improve employment especially over the long run. Supply side measures are needed: "it is better to have uncertain employment than certain unemployment". Concerning the equity/inequality debate, he thought that some inequality (wage differentiation) was more conducive to growth.

Session N° 3: The Broad Economic Policy Guidelines: The Community Strategy for Durable Growth and Employment, Friday 4th May 2000

Chair:

- Philippe MAYSTADT, President of the European Investment Bank

Speakers:

- Giovanni RAVASIO, Director-General, DG ECFIN, European Commission
- Prof. Alexandre LAMFALUSSY, former President of the European Monetary Institute
- Prof. Dr. Herbert HAX, former Chairman of the German Sachverständigenrat

Participants:

- Giorgios KATIFORIS, MEP
- Mr. HERMAN, former MEP
- Peter COLDRICK, ETUC
- Jorge HAY, UNICE

1. The Broad Economic Policy Guidelines: the reference for economic policies co-ordination and the employment problem in the community (Giovanni Ravasio)

Ravasio focused his speaking on three main issues: the framework in which the BEPGs operate, the strategy of the 2000's BEPGs and a review of what has been done so far and what still remains to do.

- The justification of BEPGs could be found in three main fields. Concerning the economics reasons, Ravasio saw 3 main motivations for the BEPGs. First, an efficient economic policy for the Union needed a common view of the economic situation, risks and answers to bring. Second, co-ordination was needed to ensure a consistent policy mix in the euro area. Finally, structural policies needed to be co-ordinated to fully implement the domestic market, to stimulate changes and to implement microeconomics reform. On a legal point of view, Ravasio saw the power of the BEPGs in the fact that they come from the Treaty itself, which calls for tangible results. The political framework of the BEPG is eventually crucial. The Lisbon European Council had regained power in the co-ordination process. With its new Spring meeting, the European Council had expressed its will to be more involved in economic co-ordination;
- The 2000 BEPGs strategy was twofold. First, macroeconomic policy should remain growth and stability-oriented. To that purpose, following the huge efforts during the last decades, public finances should clearly consolidate further than targeted in the updated stability and convergence programs. Pursuing the moderation engaged since several years, wage developments should also be consistent with the price stability policy of the ECB, and allow for local differentiation. Second, growth potential of the EU should be enhanced. This could be possible through 4 ways: (i) investment should be the driving force of growth after a low investment rate decade, (ii) structural reforms should be implemented further, (iii) public finance should now be restructured in order to support

investment and to tackle ageing population issues and (iv) knowledge-based society must become a reality in the EU by supporting R&D and innovation and better training in IT;

- Ravasio then focused on method and efficiency of the BEPGs so far. About the method, the BEPGs had been able to reach a consensus among EU on economic situation, outlook, risks and policies. They should remain well targeted and coherent, avoiding becoming a Christmas tree or risking subsidiarity conflicts. Efficiency of the BEPGs was visible in the fields of public finance and labour market. But there were still numerous parts to enhance. The implementation report was a helpful tool to exert peer pressure and best practices among member states. The latter should feel the complete ownership of the BEPGs in order to fully implement them.

Ravasio concluded by exhorting that the inspiring economic situation should be seized to press ahead reforms. This was needed to assure a sustainable period of strong growth.

(the text of the intervention is attached)

2. The economic policy approach of the Community (Alexandre Lamfalussy)

Mr. **Lamfalussy** complimented the Commission with its Spring 2000 Economic Forecasts and the 2000 Broad Economic Policy Guidelines. They were well drafted documents.

- A key issue in the economic forecasts was the uncertainty regarding the US economy. The world economy had reached a virtuous cycle thanks to the US economy’s growth performance, but the US economy could not continue to grow at present rates. The question was not whether the US will keep on expanding as rapidly but when and how it would stop. Labour shortages and inflationary pockets were already observed in the US economy and the current account deficit continued to be a problem.
- Fortunately, the euro area was a large and fairly closed economy. Thus, a US slowdown would not affect it too badly. Nevertheless, a margin for budgetary action was required and decline of the cyclically adjusted primary surplus displayed in the Spring Forecasts was evidence that this was missing. It meant that the EU Member States were following a pro-cyclical budgetary policy, which was clearly not helpful in the present juncture.
- The EU was in need to complete its single capital market. Among others, the EU would need to harmonise merger and acquisition rules, important were an EU company statute and common issuing techniques. He emphasised that much remains to be done for providing clear regulations and responsibilities on financial supervision.

(the text of the intervention is attached)

3. The economic policy approach of the Community (Herbert Hax)

In this presentation, **Hax** analysed the relation between the Lisbon council's presidency conclusion and the BEPGs 2000. While the Lisbon Council defined strategic goals and ambitious targets for economic policies, the BEPG gave operational content and focused on economic reforms. He regarded the BEPGs' approach as adequate arguing that governments did not no lack motivation to foster growth and employment, but that the finding of an operational line and its proper implementation created the main problems for economic policy. The contribution focused on the following points.

- Concerning macroeconomic policy in the last decade, there had been no alternative to a policy of disinflation and budgetary consolidation. Evidence showed that this policy stance had not been an obstacle to accomplish a high growth path. Whereas the recommendation of continuous budgetary consolidation was described as sound and well-founded, some reservations as regards wage policy as a third pillar of the macroeconomic policy mix were expressed. Governments had only a limited influence on wage developments but had the task of setting an appropriate institutional framework for wage determination.
- Structural reforms in the area of public finance should aim to improve their quality. Thus, the implicit debt of non-funded pension systems had to be taken into account and it was too short-sighted to restrict tax reductions to low-wage labour.
- Structural reforms in labour markets as for instance when reviewing benefit systems were challenging social achievements and thus, policy would need to find the proper balance between social and economic objectives. Active labour market policy should be benchmarked with respect to their purpose, namely to increase the employability of the unemployed.
- Economic policy was not in charge of setting signposts for technological development but of creating incentives and a competitive environment to support the transition towards a knowledge based economy. In this context, Hax warned against a too narrow focus on ICT. Digital literacy could only be efficiently used in combination with other sciences, furthermore, investment in human capital was exposed to a certain risk, which need to be compensated by adequate returns.

(the text of the intervention is attached)

4. Discussion

Katiforis found the objective of full employment not appropriately addressed in the BEPGs. According to his view, the approach was too fragmented and did not form a coherent policy strategy. He criticised the lack of specific recommendations to introduce the knowledge-based economy and missed in particular proposals to stimulate investment. The objective of budget surpluses in the BEPGs had to be regarded under the precondition that private investments were sufficiently high to compensate for subsequently low public investment.

For **Herman**, the BEPGs did not suffer from conceptual problems but from a lack of implementation. He expressed some reservations on the effectiveness of peer pressure. Referring to the experience with pension reforms, the envisaged political costs in terms of lost elections created a serious obstacle for the implementation of policy measures, even if these were beneficial from an economic point of view.

Coldrick classified macroeconomic policy as overly cautious. The macroeconomic dialogue was a useful forum to exchange views between the monetary authority and the social partners and might contribute to a revision of the ECB's attitude towards labour market issues. The focus of the BEPGs on employment was too narrowly focused on structural issues because a lack of flexibility was not the key problem of labour markets in the EU.

Hay welcomed the BEPGs' focus on structural reform and on the business climate arguing that enterprises and their profitability were key factors to accomplish high rates of growth and full employment. Enterprises in the EU were still facing severe obstacles. Examples were the high administrative burden for starting a new business, impediments for restructuring enterprises and the existence of 15 different tax and law systems. He supported a more comprehensive strategy of reducing the tax burden, not restricted to low-wage labour and not necessarily conditional on progress with budgetary consolidation. In particular, he strongly regretted the distant deadlines for completing the single market for financial services.

Replying to questions from the audience, **Ravasio** indicated that peer pressure could not work against the intentions of the governments. But peer pressure could be an effective instrument to press ahead with economic reforms once governments intended to implement them. Concerning the role of tax policy in the EU, he referred to the available evidence of benefits arising from reducing the tax burden. The BEPGs displayed many examples for tax reductions, for instance for low wage workers and for business, which did not conflict with tax competition rules.

Lamfalussy saw an enormous pressure of the EU's financial industry to restructure. While it was important to have an institution playing a key role in the supervision of financial market activity, this did not have to be the ECB. One could also think of a system, in which different bodies were in charge of different market segments.

In his closing remark of the discussion, **Maystadt** expected the BEPGs to focus increasingly on the euro area over time.

5. Conclusions (Pedro Solbes)

In his conclusions, Commissioner **Solbes** stressed the following points.

- The Commissions economic forecasts had been validated and there had been a broad agreement that the environment of macroeconomic policy making had improved. All speakers agreed with the Commissions recommendations in the area of budgetary consolidation and had regretted the complacency of governments in this area.
- As regards the discussion of economic risks, he underlined the positive assessment of the inflation risk the Commission was sharing with the IMF.
- Reviewing the discussion of whether unemployment had been caused by macroeconomic or structural causes, he concluded that the realisation of an extended period of high growth in the EU would require an appropriate macroeconomic policy mix supplemented by efficient goods and factor markets.
- Some positive changes had been observed. The EU to had become more resilient to external shocks and wage setting had been geared towards stability. The key challenges ahead were the implementation of both the Lisbon Conclusions and the BEPGs. In this respect, the proposals to speed up the creation of the single capital market in the euro area and to address financial stability were of particular importance.

(the text of the intervention is attached)