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"We need co-operation"

International speakers at the Forum

'Global adjustment and Economic and Monetary Union' was the theme for discussion at the eighth Brussels Economic Forum held on 31 May and 1 June 2007. Global imbalances, adjustment and integration in EMU, and how to foster catching-up and cohesion within the EU were the main issues under debate in the four Forum sessions which were attended by more than 1,000 participants this year.

"The important thing is not to stop questioning," is how Klaus Regling kicked off the Forum on 31 May. The Director-General of DG ECFIN, who was quoting Albert Einstein, welcomed delegates with a description of Europe's commitment to work in co-operation with its global partners to solve the important economic challenges facing the world economy. "Europe is convinced that co-operation on policies and options is required for this," he said. The call for a questioning spirit was certainly taken up by speakers during the rest of the conference – where distinctly non-converging views were put forward on the conference themes. Commission President José Manuel Barroso laid out the context for the discussions in his keynote address on the perspectives and challenges facing the EU in the global economy. In particular, he praised the momentum for reform that is building as a consequence of the relaunched Lisbon Strategy, and added that the reform process has not yet received the credit it deserves. He also reminded the audience that many of the challenges today are global in nature, and thus they require global solutions for which, he explained, the framework and policies of the European Union are critical.

The first session of the Forum put the global current account imbalances under the spotlight. IMF first Deputy Managing Director, John Lipsky described an evolving view that such global imbalances are a reflection of globalisation and should be seen as a medium-term challenge rather than a short-term emergency, as some have presented them. Mrs Wu Xiaoling, Deputy Governor responsible for monetary policy at the People's Bank of China, put forward a similar line. Mrs Wu argued that imbalances are normal, although the size of the current one is a legitimate concern. "But we cannot rely on one country alone to solve imbalances", she said, "It needs co-operation." OECD Chief Economist Philippe Cotis pointed out that it is difficult to decide if an imbalance is dangerous or not, while Muhammad Al-Jasser of the Saudi-Arabian Monetary Authority agreed and proposed caution in employing knee-jerk policy responses when the markets might rebalance the situation if left alone.

Growth and inflation divergences still persist in the euro area and show that internal adjustment is sub-optimal. Session II looked into its factors and discussed a better way to address adjustment challenges and their resolution. The session was opened by Commissioner Joaquín Almunia who emphasised the key role of the Eurogroup in meeting economic challenges in a coordinated manner. Five academics with policy-making experience participated in the following panel discussion, offering different views on fiscal discipline, divergence and reform within EMU. The German Minister of Finance, Peer Steinbrück, highlighted the ambivalence EU citizens have towards integration and globalisation, viewing it as a source of wage dumping and other setbacks. Further liberalisation must go hand in hand with reciprocity he argued, things must be fair, and it is important to avoid a race to the bottom.

Convergence under tension

On the second day of the Forum, Commissioner Danuta Hübner opened the session on catching up and cohesion in the EU, referring to the recent cohesion report's findings that differences in development persist across the Union.

How the Member States are dealing with these was the subject of presentations from Mitja Gaspari, who led Slovenia into the euro area this year as Governor of Banka Slovenije, Bulgarian Minister of Finance, Plamen Oresharski, and Sebastian Vlădescu of the Romanian Ministry of Economy and Finance. The latter two speakers both emphasised that while meeting convergence criteria is a long-term aim, improving infrastructure in the real economy to ensure a sustainable catch-up process is a clear priority for their countries. Tensions in this catching-up process, and their sources, were highlighted by speakers including ex-Prime Minister of Poland, Marek Belka and Erik Berglöf of the EBRD.

The final keynote address was given by Pascal Lamy, Director-General of the WTO, who argued for more trade opening as a tool for development as well as a source of many opportunities for dialogue and understanding. ■

A short guide to the BEF

The annual Brussels Economic Forum (BEF) was established in 2000 in order to open discussion on the economic issues and challenges facing the EU to a wider audience by bringing together social partners, academics, economists, the media and policy-makers from many levels of government and EU institutions, including non-EU partners.

The idea was to take the EU-level issues, ideas and proposals outwards to national, regional and local actors and citizens whose support is vital for EMU to succeed and for Europe to prosper.

The BEF themes are closely related to important issues in the EU economy and the need for public discussion, as a brief look back at earlier conferences shows:

- It was in the 2000 Forum that Philippe Maystad, president of the EIB, insisted on the need to accelerate budgetary consolidation in good times, contrary to what was a tendency in most Member States at that time.
- In the 2001 Forum, Didier Reynders, the Belgian Minister of Finances and Head of the Eurogroup explained his Eurogroup project as acting as a "catalyst" for structural reforms.
- In 2002, when the stock markets were at their lowest, the conference asked what regulation is needed to provide resilience in the future, and economic convergence also first appeared in view of the upcoming 2004 enlargement.
- In 2003, as the emphasis on sustainable finances gathered momentum, the economic implications of ageing were first given high visibility, foreshadowing the importance given to this issue today in policy-making.
- In 2004, Richard Hemming of the IMF spoke on the pros and cons of the then unreformed Stability and Growth Pact and discussed the design of medium-term fiscal targets in terms of "reloading the fiscal cannon in the good times".
- In 2005, with 'globalisation' becoming an issue of public concern, seen as a threat to EU jobs by some, the conference heard from Prof. Bhagwati of Columbia University on lessons from outsourcing and labour migration.
- In 2006, former EU Commissioner Mario Monti foreshadowed the discussions in this year's Forum when he laid out the risks to growth posed by diverging economic performances in the Member States, and particularly in the euro area.

The rising year-on-year participation in the Forum is a sure sign of its growing success: the 1,000 mark was passed in 2005, and the registration rate has been maintained above it, with 1,180 participants registered in 2007. However, along with the rising interest, there is another success factor – the BEF has always raised the important issues, not necessarily the 'hot topics' but rather those that should be the 'hot topics'. ■

Session review | 'Adjustment and integration dynamics in EMU'

Getting adjusted to EMU

"I want a roadmap for a stronger EMU"

Commissioner for Economic and Monetary Affairs, Joaquín Almunia

In the first session, Commissioner Joaquín Almunia urged EU governments to use the current economic upturn wisely. Leading academics then spoke on the possible approaches to adjusting to EMU.

The positive economic climate, Commissioner Almunia explained, is seen in good economic performance and a positive outlook for EU growth – 2.7% in 2006, which is predicted to continue in 2007 and 2008. And this robust economic performance, well above the long-term average, is filtering through to employment – close to 2 million new jobs in 2006, with unemployment dropping to its lowest level in 15 years.

But there are challenges ahead, the Commissioner said. On current trends, Europe's old-age dependency will double over the next 50 years – causing potential growth to drop from 2% to around 1% in the period 2031-2050. Further, sluggish adjustment in the euro area could produce divergent and persistent swings in economic activity – this must be met by changes to improve competitiveness. Next year, he concluded, "I want to celebrate the tenth anniversary of monetary union with an updated vision and a roadmap for a stronger EMU."

Real priorities

Whilst the conventional view is that fiscal policy can deal with asymmetric shocks, noted Christopher Allsopp, of New College, Oxford, "Governments should use fiscal policy to get to the right real exchange rate, and that will ensure fiscal stability". Tight debt/deficit targets exacerbate the difficulties of implementing fiscal policies, he argued, and, "whilst there is a consensus that medium-term fiscal discipline is necessary, real exchange rates are more important than debt targets".

Willem H. Buiter, from the London School of Economics, challenged the pervasive view in EU policies that convergence is good and divergence bad. "We need lots of nominal divergence to cope with asymmetric shocks and to take account of real adjustments between countries with different levels of development." Provided there is sufficient sharing of risks across the euro-area countries, he reckoned, asymmetric shocks could be beneficial. Contrasting the situation before and after EMU, Giuseppe Bertola, of the Università di Torino, said that even though EMU means governments can no longer use inappropriate macroeconomic tools, such as devaluation, to address unemployment, there are still problems to be addressed. "Labour market rigidities may be sensible if we need them to target poverty or risk. If we cannot afford them but need them, there is a risk of breeding resentment of economic integration."

Dominant factors

"Member States have very different exposures to external shocks in global markets, and we must not forget that integration in EMU is just a part of the globalisation in financial systems," said Philip R. Lane, from Trinity College, Dublin. For some countries, the euro-dollar exchange rate clearly dominates the real euro exchange rates. Since EMU, large current-account deficits and surpluses have persisted where before the market would have corrected them.

Concluding the session, Jean Pisani-Ferry, Director, BRUEGEL, sought to establish whether divergence is a problem: "Divergence between euro-area countries only becomes a problem if it risks jeopardising the proper functioning of EMU," he argued. "Fundamentally, inferior performance is only a problem for national governments – the persistent divergence in real exchange rates between euro-area countries is evidence of poor competitiveness and the slow pace of reform." ■

Globalising fairness

Reform and responsibility were the messages President José Manuel Barroso stressed in his keynote address to the Brussels Economic Forum.

"Two years after the relaunch of the Lisbon Strategy, my impression is that it has added momentum to Europe's reform process," said President Barroso. He went on to describe these reform efforts as striking the right balance between security and flexibility, which has proven successful in several Member States to reduce unemployment and make work pay. But more is needed, he urged, despite clear progress so far, there is huge scope for improvement.

"EU Member States are benefiting from past policies, but further reforms are indispensable for coping successfully with rising global competition and boosting long-term living standards in the EU. It is therefore essential that Member States seize the opportunity created by the renewed economic vigour to secure sound public finances and push through further structural reforms.

"However, many of the challenges today are global in nature and therefore require global solutions," President Barroso added. So it is important that we in Europe focus also on the responsibilities that globalisation brings, he said. "Whilst we in the West enjoy rising living standards thanks to globalisation, we must ensure that the rest of the world can grow in parallel. After all, if the globalisation process is to be successful, it has to be a fair one." ■

Session review | 'Driving integration in EMU forward: policy challenges'

"Times are favourable for reform"

Opening the session, the German Minister of Finance, Peer Steinbrück recalled that Germans were initially sceptical about the introduction of the euro. They could see strong monetary union, but regarded weak political union as a potential problem. However, the subsequent synchronisation of euro-area economies has been remarkable, even though some stubborn growth differentials exist.

German Finance Minister Peer Steinbrück

Minister Steinbrück referred to the successful structural reforms in Germany that have helped improve price competitiveness – mainly because of moderate wage demands. German companies have also restructured and become more competitive, which is why fewer complaints about the dollar-euro exchange rate are voiced in Germany than in other EU countries, he explained. The times are favourable for other Member States to reform now, continued Steinbrück, but this window of opportunity may remain open for another year or so – but not longer.

He went on to highlight that integration and globalisation are viewed ambivalently by German citizens – they fear wage dumping and other setbacks. It is up to us to ensure all citizens benefit, otherwise protectionism will be on the rise – so we must avoid a crisis of legitimacy. Therefore, he proposed, in furthering the single market we should emphasise development and efficiency rather than deepening.

Moving on to liberalisation, the Minister said that further market opening is necessary – but the condition is reciprocity: things must be fair. Otherwise we will lose our legitimacy with citizens, he warned. It is important to avoid a race to the bottom through competition on wages, taxes, social and environmental standards – a level playing field is needed.

It has not disappointed

Ernest-Antoine Seillière, President of BusinessEurope reported on enterprises' satisfaction with the euro and the opportunities it offers, not only within the single market but also in the wider world. He went on to point out that, unfortunately, governments tend to reform as a last resort – yet this is highly detrimental.

In his contribution, Greek Finance Minister Giorgios Alogoskoufis highlighted the common agreement that the basic architecture of EMU has been a success. "It has not disappointed – it has given us what we expected it would give," he said. However, while there were initial problems in the early years, since then things have improved a lot – and now we have the challenge of meeting our medium-term objectives, he told the audience. MEP Mme Pervenche Berès, Chairwoman of the European Parliament ECON committee, told the audience that, in addition to price stability, the euro has always been about growth – and there is a mixed bag of results. Reiner Hoffmann of the ETUC highlighted increased doubt in the trades union movements over the fair distribution of the fruits of EMU and the euro.

While the ETUC has always been supportive, he said, this was because they expected fair distribution. This has not happened – while workers are aware of the need for labour market reform, the questions of how and how far, remain unanswered. Basically, the supply side has had it too easy, said Hoffmann, and the social dimension of EMU must be strengthened as a matter of urgency. ■

Session review | ‘Unwinding global imbalances: dollar deficits and distress’

Global imbalances: cause for concern?

At the first session of the Forum, Director-General Klaus Regling pointed out that although there is much to be positive about, there is no excuse for complacency.

Director-General Klaus Regling, Economic and Financial Affairs, European Commission

First Deputy Managing Director of the IMF, John Lipsky, kicked off the presentations, speaking on the IMF's multilateral consultations initiative on global imbalances which bring all the concerned economies together to build a co-operative response. He described an evolving view that global imbalances are more a medium-term challenge than a short-term policy emergency, and pointed to the simultaneity across the globe of strong economic results over the past five years, with unprecedented levels of capital flows – both reflecting globalisation. However, he explained, domestic demand growth does not follow the same pattern, and diverges substantially between regions – which is the root cause of the large imbalances we see today.

Legitimate concerns

Mrs Wu Xiaoling, Deputy Governor of the People's Bank of China, described her observations on the causes and symptoms of imbalances. It is a normal phenomenon, she said, realistically everything can't be in perfect balance, but there is a legitimate concern over the size of the current imbalances, which may be exacerbated by the special status of the US dollar. “We cannot rely on one country to solve the problems of global imbalances”, explained Wu Xiaoling, “it needs co-operation – each country must take its responsibilities for adjusting global imbalances – and the EU is a good model for the world.”

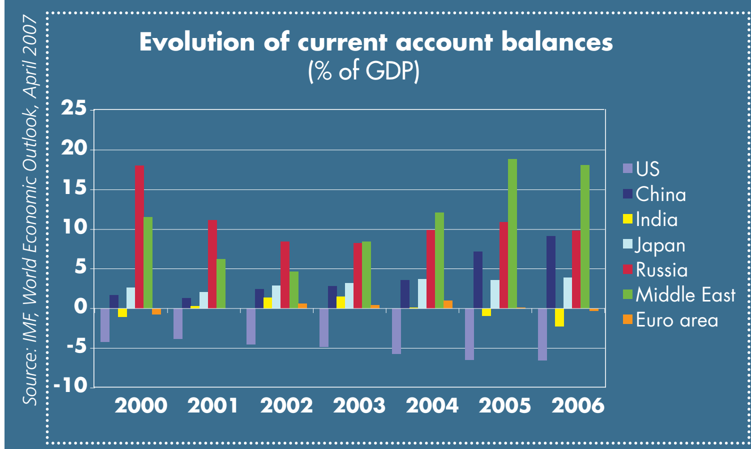
China's contribution includes boosting consumption, although this must be done in a controlled manner. Implementing a solid social welfare system and streamlining foreign trade policies would release capital for consumption and boost imports, she continued, while encouraging investments abroad could also help.

So why worry?

OECD Chief Economist Jean-Philippe Cotis agreed with Wu Xiaoling that current account imbalances should be the norm in a perfect world – so why worry, he asked. Because imbalances might also be symptomatic of market imperfections, he answered. The problem is that we do not know how to decide when an imbalance is dangerous – and he suggested that as policy-makers are trying to avoid a low-probability event, but one that has a high potential cost, any pre-emptive policy actions must first and foremost serve other domestic ends.

Muhammad Al-Jasser, Vice-Governor of the Saudi-Arabian Monetary Authority, posited two group views for approaching global imbalances. The first takes them as a serious problem but, he pointed out, this ignores the fact that, despite the huge US current account deficit, the dollar is not overvalued – the depth and liquidity of US markets and the wealth of the US can finance these current account deficits four times over, he explained.

The second view believes that current account deficits are an aspect of globalisation – and this group worries more that policy mistakes may be made, rather than fearing some ‘hard landings’. Muhammad Al-Jasser concluded by saying, “We must be cautious in assuming that policy actions would be better than leaving it to the financial markets.”



In 2006, imbalances continued to widen in the major surplus regions. China's global current account surplus increased sharply in 2006 – by almost 50% – to a record USD 238.5 billion from 160.8 in 2005, also reaching a new record of 9.1% of GDP. Russia's current account surplus increased to USD 95.6 billion in 2006 from USD 83.3 billion in the previous year, reaching 9.8% of GDP. Oil-exporting economies in the Middle East received significantly higher revenue due to the high oil prices and now represent the largest counterpart to the US deficit. Although the euro area's current account is close to balance, it would not be immune to the effects of a disorderly adjustment (*European Commission, Annual Report on the Euro Area, 2007*).

Session review | ‘Phases of integration’

Phased approaches

Opening the first part of Session III, Commissioner Danuta Hübner referred to the findings of the latest cohesion report that differences in development remain large across the Union, and called for the right policy mixes to be matched to each country's own situation.

Participants then heard about the experiences of ‘newly acceded’ Member States: Slovenia, which has just joined the euro area, and Bulgaria and Romania, which entered the EU on 1 January and are now facing further ‘entry’ qualifications – albeit without a deadline.

Mitja Gaspari, the former Governor of the Bank of Slovenia who led monetary preparations for euro adoption, then described Slovenia's experiences. With relatively high GDP per capita, an open economy that is susceptible to external shocks (although less so today), and with public finances in good order, the main issue for Slovenia was the 1999 supply-side shock resulting from several factors including the introduction of VAT, and energy price rises. For this reason, the primary goal of monetary policy in the approach to the euro area was stabilisation – particularly of the exchange rate.

While the economic outlook for the Slovenian economy is rosy, Mitja Gaspari outlined challenges ahead as a euro-area member – in particular, preparations for counter-cyclical spending which must be directed at growth and competitiveness rather than stimulating government consumption.

The Minister of Finance of Bulgaria, Plamen Oresharski, described his country's accession in 2007 as a key year for the country. “It showed that the transition from a planned to a market economy can be successful – but it has been a long, winding and adventurous road for Bulgaria. Today, Bulgaria meets three of the five convergence criteria, and the inflation criteria will be met in the medium term,” he said “But euro entry is a long-term objective and the main challenges for Bulgaria are in improving its basic infrastructure.”

“With the accession process behind us, we now have a booming economy – almost overheating,” is how Sebastian Vlădescu, Secretary of State at the Ministry of Economy and Finance, described the economic situation in Romania. This welcome growth aside, he identified macroeconomic stability as the main challenge for Romania today and in the future, as well as the infrastructure investments that will determine when Romania will be ready for entry into the euro area – perhaps in 2014.

However, he concluded, Structural and Cohesion Funds will make a huge difference – raising GDP by an extra 15-20% by 2015, investment by 28%, and an expected 200,000 new jobs created annually.

Open to trade: a political ‘must’

“I do not think, frankly, that anyone seriously believes raising trade restrictions is an option,” Pascal Lamy told the Forum in his closing keynote speech.

> “Nothing is agreed until everything is agreed”

Concluding Doha is technically possible, a political ‘must’, a part of managing globalisation and, as a multilateral process, it is the fairest solution according to the WTO Director-General who stressed the urgent need for action saying, “We cannot maintain a trading system imbalanced against developing countries for much longer”.

Globalisation, like the industrial revolution before, is fundamentally transforming our societies, and international trade is a key feature of this, he said, pointing out that over the past two decades trade expansion has outstripped GDP growth by a factor of three. “Trade opening enables us to have more influence around the world and get benefits faster, cheaper and deeper – and it offers multiple opportunities for promoting dialogue and understanding,” he told delegates.

However, in the context of globalisation it is not surprising that public opinion is more concerned with asking who shares in this growth. Eurobarometer surveys reveal that 40% of respondents associate globalisation with relocation to cheaper countries – only 15% see opportunities, commented Lamy. “Dealing with these domestic concerns, the adjustment costs, is the main concern of politicians”, he pointed out, remarking wryly that “voters are local not global.” Europe, with the single market, has to show that what has been good inside its borders can also be good outside, he concluded.

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Session review | ‘Successes and tensions in the catching-up process: a few lessons so far’

Many paths, one destination

In the second part of Session III, participants heard about tensions in the catching-up process and how these can arise. In her opening remarks, Commissioner Hübner said that while we all understand the benefits of the rules of the Stability and Growth Pact, catching-up economies have other factors to consider and need to find their own paths for convergence.

Marek Belka, Executive Secretary of the UN Commission for Europe

“I want to contrast the discussions on Economic and Monetary Union and the enlargement of the euro zone with the social and political realities on the ground,” said Marek Belka, Executive Secretary of the UN Commission for Europe and former Prime Minister of Poland. Officially there are no opt-outs and no discussion on pros and cons of the euro in the new Member States, he continued, but on the ground three groups can be discerned. Slovenia is in, Cyprus and Malta are on track, Lithuania and the other Baltic States seem to prefer 10% growth rates for the time being rather than early euro adoption, and the Visigrad group including Poland and the Czech Republic, are clearly hesitating.

“A clear agenda, but…”

However, while on paper all seems fine, in the new Member States themselves there seems to be a constant flow of bad news that affects political sentiment on the euro – overall there is a clear agenda but a poor atmosphere, he explained. Of course, there are overwhelming arguments for joining the euro area, he insisted. “I would rather fight to limit inflation in the euro zone than have to deal with a volatile currency appreciation outside.” He went on to argue that their flexibility, strong links to the internal market, and high degree of external ownership make these countries fit to adopt the euro, but that without some flexibility in the entry criteria, windows of opportunity to enter the euro area will be lost for many years.

Restraint and reforms

Chief Economist of the EBRD, Erik Berglöf, spoke about “catching up and the fear of being left behind”. “Fear”, he explained, “is a powerful force in global development and was an element in the accession process.” But it is less powerful now, he suggested. Although the catching-up process has delivered many successes, fiscal restraint today is difficult after the sacrifices made in the run-up to accession – and the power to enforce it is also less as the new Member States are now in the EU. Yet restraint and reforms are critical, he argued as, despite the large degree of integrated financial ownership in the new Member States, functional integration is less developed.

Vítor Gaspar of the Bureau of European Policy Advisors asked whether the European Union is a convergence club, saying that the evidence suggests it is – but with reservations. He compared the historical economic performance of Spain and Portugal, pointing out how they joined the EU together, liberalised their markets together and disinflated together – two economies that acted in parallel for many years. But after 2000, this parallel development failed as Portugal fell behind and GDP per capita fell. “Getting an answer as to why this happened is difficult,” he explained, which means that policy carries a judgement burden and, thus requires a robust control approach.

Michael Landesmann of the Vienna Institute for International Economic Studies spoke on the contrasting links between growth and employment in the EU-15 and the EU-10. According to Landesmann, employment generally tracks with growth in the former, but in the EU-10 this is not the case.

Despite their high GDP growth rates, employment growth in the new Member States is stagnant. This is due to changing skill demands, he explained, where the loss of lower-skilled jobs in agriculture and manufacturing balances any gains made from economic growth in more dynamic sectors – so economic growth is not reflected in overall rising employment figures. ■

Points of view

“Economic reform is the name of the game today.”

Commission President José Manuel Barroso.

“We must avoid a ‘two-speed Europe’ with EU countries divided between euro-area and non-euro-area members. The Eurogroup should never represent a closed group.”

Joaquín Almunia, Commissioner for Economic and Monetary Affairs.

“In the future, central banks generally will hold more euro. This is a historic development and the EU countries should be proud of this.”

Deputy Governor Wu Xiaoling of the People’s Bank of China.

“Unfortunately, governments tend to reform as a last resort – yet this is highly detrimental.”

Ernest-Antoine Seillière, President of BusinessEurope.

“Excessive precipitous policy actions undertaken with the sole aim of immediate and substantial reduction of imbalances could be unnecessarily disruptive to global growth and could even undermine financial markets stability.”

John Lipsky, First Deputy Managing Director of the IMF.

Browsing the BEF

The European Commission’s Directorate-General for Economic and Financial Affairs publishes a wealth of reports, studies, and analyses, which were available in the Forum at the publications stand. Each morning, participants could also read about upcoming issues and previous day’s discussions in *THE FORUM*, the daily newspaper of the event.

THE FORUM

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