Session no. 1: The Economic Outlook and the Broad Economic Policy Guidelines

Presentations:

DG K. Regling presented the Commission's recent *Spring Forecast and the 2004 update of the Broad Economic Policy Guidelines* (BEPGs).

R. Hemming (IMF) discussed *'rules based fiscal policies in EMU: pros and cons'* His main conclusions were that: the Stability and Growth Pact (SGP) remains a central pillar in the EMU; that medium-term targets needs clearer rationale; that it is important to use several fiscal indicators arguing for a greater flexibility when identifying a deficit as excessive; that it is important to solve the current political problem between the Council and the Commission; and finally that it is key to 'reload the fiscal canon', i.e. to ensure that sufficient margins are created in the budgetary positions during good years to allow the automatic stabilisers to play fully in the downturns.

Prof. T. Andersen (Aarhus university, Denmark) discussed '*non-Keynesian effect of fiscal policy: theory and evidence'* on whether it is possible to increase activity by consolidating public finances. Andersen argued that both theory and empirical evidence are non-conclusive, at least in the longer term. In general, it appeared as if non-Keynesian policies would be a very risky way of increasing activity – as it depends on how 'credible and consistent' they are perceived in view of the general need for reforms to ensure fiscal sustainability.

Policy panel and open debate

De Buck (UNICE): broadly agreed with the Commission's forecast and noted that although Europe is growing, other regions are growing faster. EU is still too dependent on the rest of the world. The best thing to do is to focus on structural reforms and thereby create an "own motor for Europe". As regards macroeconomic policies: it is a question of (i) sticking to the rules; (ii) keep an eye on price stability and maintain the independence of monetary policy; (iii) do not be too greedy, referring to wage policies; and finally (iv) "just do it", referring to the structural reforms needed as spelled out in the Lisbon Strategy.

Malosse (EESC) focused on the specific problem of governance in the EU, noting that the Internal Market is not yet completed and that although all support the Lisbon Strategy, the deliver gap is to a certain degree to be explained by a communication problem. It is imperative to ensure (i) implementation; (ii) increase investment in R&D; (iii) increase investment in human capital; and (iv) strengthen cohesion. The Social Partner can play an important role in this respect. Finally, Malosse noted the mandate given to them by the European Council as regards the midterm review and 'partnership for reforms'.

Hoffmann (ETUC), who replaced J. Monks, argued that the recovery in the EU was meagre and uncertain. He requested that adequate action should be taken to support domestic demand. He regretted that Europe does not believe in active demand policies, thereby leaving the economy to sort out its problem by itself. However, he thereafter acknowledged that macroeconomic policies can not do everything, and that structural reforms are also necessary. But workers are not likely to see the benefits of structural reforms unless demand is picking up. As regards the BEPGs, Hoffmann was surprised to see them unchanged in

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view of the growth failure and wanted to put 'growth in the centre', also arguing for a more sensible implementation of the SGP. He underlined the importance of the growth initiative and noted that both the IMF and the OECD have called for lower interest rates for the ECB.

Questions from the floor focused on

- '*peer pressure in SGP'* where Hemming responded that the problem was not so much a lack of peer pressure as a lack of action in some Member States to consolidate their public finances in good times;
- *'need to define a new debt-indicator in view of the demographic pyramid'* where Hemming argued that there was no need to redefine the debt criteria, but rather to enhance the use of multiple indicators. He also stressed that empirical test of the life cycle theory tended to show that older persons actually saved more;
- '*policy to improve the competitiveness of the EU with references to the USA*' where De Buck responded that no matter what enterprises say, there are two big advantages in Europe: the Internal Market, which is truly integrated, and the euro, and that it is key to build on these strengths;
- '*if non-Keynesian policies in the acceding countries could be combined with real depreciation*' where Andersen replied that it is very difficult to know for certain what is the cause and what is the effect, and hence very difficult to draw policy conclusions from the examples discussed;
- 'o*n how Social Partners could help to create conditions for reforms*' where first Malosse answered that EESC contributed by numerous discussions with the Civil Society. Furthermore, the European cohesion policy need to include the Lisbon Strategy, second Hoffmann recalled that the employees most important contribution was a moderate wage development, also referring to a report prepared for the European Council on life-long-learning, and third De Buck who also stressed the importance of communication where ETUC and UNICE indicated that they would try to agree to a joint statement; and finally
- '*is there not an urgent need to renegotiate the SGP'* where Malosse confirmed the importance of the SGP as an useful instrument, and that the difficulty lays in its interpretation.

In a concluding remark, M. Buti, who replaced K. Regling, made a few points: firstly, that the BEPGs is not only on stability, but also on growth; secondly, that current GDP growth is not far from potential, which is rather low in the EU. It is essential to understand that it is the uncertainty (or lack) of reforms that have affected consumption, not the reforms themselves; thirdly, note that fiscal policy has been expansionary in recent years; and finally, on the SGP: note that it is a supranational rule. What is optimal at the national level might be second best, or even poor, at the European level. The same goes for the golden rule, where the question of defining good and bad spending is not clear cut. It is useful that there is an open and ongoing debate on the SGP.