Closing Remarks:

‘Making Economic and Social Convergence Our Political Priority’

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Introduction

Dear colleagues, dear Pier Carlo,

- Let me first thank you all for your presence today. This event has given us a unique opportunity to discuss with such a select group of highly competent people the important topic of convergence and resilience.

- Economic and social convergence is a policy priority of the utmost importance for me; and making EMU work for economic and social convergence is fundamentally important to us all.

- The EU remains more equal than other advanced economies. But inequality in disposable income has increased in recent years.

- High inequalities are socially and politically problematic. They can also have a detrimental impact on economic growth.

- The recent recovery and the positive economic outlook may give a false impression that social fairness will automatically improve. But inequalities trends
have been observed for many years, way before the crisis. Now that the economy is doing better we must make sure that we re-converge in a way that the recovery is felt by all.

- **To build a fairer and more resilient society in the long term, we must first achieve a common understanding of what we mean by fairness and resilience.** What needs to be fixed? What is resilience? And how can we achieve it?

- Today’s conference addressed these issues in details.

**Wrap-up of the day**

- Convergence and resilience have become central in the EMU debate, as illustrated in the panel moderated by Ann Mettler, and highlighted by the Portuguese Prime Minister, Antonio Costa.

- VP Dombrovskis recalled what drives economic convergence, while Marco Buti introduced the concept of convergence towards resilient economic structures.

- Concrete testimonies, such as Pier Carlo Padoan’s, highlighted what works and what does not.

- These perspectives will helpfully contribute to our ongoing work on EMU reform and convergence. So, many thanks again to all for this.

**Convergence at the heart of the European project**

- Convergence towards the highest levels of prosperity has always been at the heart of the European project.

- The EU integration process itself was originally conceived as a "convergence engine". The “Maastricht” convergence criteria to join the euro area, the “Copenhagen criteria” to enter the EU or the EU’s instruments for regional cohesion, all focus on different but important forms of convergence.

**Convergence and economic outcomes**

- But experience has shown that being part of the EU or euro area “clubs” has not necessarily guaranteed convergence in standards of living for all and at all times. The crisis put a break to the process of convergence of standards of livings for many countries in the euro area. Some real convergence has only been happening again most recently again. In Spain or Portugal, the convergence in income per capita has stagnated. It has even deteriorated in Greece or Cyprus.

- And despite the economic upswing, differences persist:
  - Italy’s public debt is twice as high as the Netherlands’.
Spain's unemployment rate is three times that of Austria.

And Germany's current account surplus is now ten percentage points larger than that of France.

Convergence and social outcomes

- When looking at various metrics of social outcomes, the overall picture at EU level is not satisfying either.
  - In 2015, the top 20% of the EU population earned 5 times more than the bottom 20%.
  - In 2016, almost one in five 25-29 year-olds in the EU were neither in education, employment nor training.
  - Inequality has even deteriorated among the 12 first countries that joined the euro area.
  - In 2015, there were almost 120 million people in the EU-28, equivalent to almost one quarter of the entire population, who lived in households facing poverty or social exclusion.

- For the euro to reach its full potential, we cannot let these economic and social divergences persist.

Why both economic and social divergence matter for the euro area

- Economic and social divergences matter for the euro area for its daily functioning but also for its political acceptability.
  - They undermine the promise of shared prosperity, which was central to the creation of the euro in the first place. And they fuel populism in regions were inequalities have been felt more strongly.

- Economic and social divergences are also mutually reinforcing. Member States with relatively high inequality levels are more likely to have more people in poverty with more limited access to skill formation. This in turn undermines the efficient allocation of resources and productivity growth.

- Addressing economic and social divergences jointly is crucial to create the basis for a common vision for the euro area and to agree on the right course of policies at EU or euro area level.

What should be the objectives?

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• We need to address these matters jointly; but we also need Member States and the Union to act jointly. What should be the common objectives?

• We can take the US as an example with regards to their record on job and growth. But their perspective on public goods and services and inequalities is not ours. This is a specificity that Europe should preserve.

**A new software for Europe: resilience and structural reforms 2.0**

• We can make Europe converge again and "re-load" our prosperity model via what I call Structural reforms 2.0. These reforms aim to empower people over the course of their life-career and foster productivity for inclusive growth.

• The best shield against unemployment is education and training. Increasing the quality and access to education contribute to productivity growth and reduce inequality. Both vocational training and lifelong re-training can also improve social and economic outcomes.

• But because being educated is pointless in an economy that does not create jobs, investment in human capital must necessarily find its counterpart in economic policies which stimulates growth.

• Structural reforms 2.0 must therefore also go hand in hand with flexicurity and open competitive markets.

• Flexicurity protects workers by combining the investment in their training or retraining with active labour-market policies that provide tailored support for workers to help them switch jobs if necessary. It is about workers’ security, not job security.

• Open and competitive markets support resilience as they facilitate reallocation and adjustment processes. In short the single market is a powerful engine for integration and the creation of shared growth and prosperity.

**While Structural reforms 2.0 increase the resilience in our Union, the EMU should also play a role in bringing more convergence.**

**EMU as a tool for convergence**

• EMU is our main tool for convergence in the euro area. We have always been clear that the EMU project is not an end in itself. We have to make sure that our EMU is equipped with the appropriate tools to deliver on convergence.

• The first benefit of the euro area since its creation has been stability. This is a great achievement, and I believe we must now go further. We want to ensure that key elements of the Financial Union are in place as soon as possible, including to reassure
depositors that their savings are equally protected independently of where their bank is located.

- **And we also need to ensure that EMU brings growth and greater social cohesion.** For this we need stronger incentives and support with new instruments at European level for reforms and national policies at home.

- **We are for example working on the establishment of a dedicated euro area budget.** This should provide for a central stabilization function to help Member States overcome economic difficulties and prevent recessions from becoming entrenched and turning against convergence. For such a stabilisation function to deliver results it cannot rely on simple loans to member states. Rather it would allocate financing in case of a deep recession which would be paid back over time in economic good times. By construction such a scheme would be in balance over a business cycle and does not imply permanent transfers.

- **We are also looking at the link between policy reforms and the EU budget to strengthen it and foster convergence.**

- Finally, the EU’s capacity for technical assistance could be expanded to assist Member States in the implementation of targeted reforms that are key for convergence and resilience.

**Democratic accountability/legitimacy**

- **A Europe with economic and social convergence is a Europe where citizens have a say.**

- **Democratic legitimacy is not a remote institutional issue.** It is a tool to empower people to develop consensus on the way forward.

- **My views on the democratic deficit in the euro area known: I believe that reforming the governance of the euro area is indispensable.** Any strengthening of EU competences has to go hand in hand with stronger democratic scrutiny and accountability.

**CONCLUSION**

- **To conclude, let me reiterate that social and economic convergence go hand in hand.** We do not want a two-speed approach whereby social and economic convergence would not be fully aligned. At the same time, we do not mean harmonisation of policies or situations across the board.

- **Structural reforms 2.0, combined with an EMU framework creating the right incentives, offer a balanced and comprehensive approach.** They can pave the way for economic resilience and social upward convergence.
I do hope that in the months to come the necessary political will be mustered to take advantage of the wind in our sails and move to concrete actions.

So let me finish off by thanking the three services of the Commission (the think-tank EPSC, DG GROW and DG ECFIN), who have worked jointly to make this event possible, and let me thank you for attending it.