



"Uneasy Calm: Fixing Europe's Economic and Institutional Woes"

Marco Buti

DG Economic and Financial Affairs

European Commission

**Harvard University, Center for European Studies,
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Outline

1. *Slowly exiting the worst crisis since the 1930s*
2. *What do citizens want? "More" or "Less" Europe?*
3. *Overcoming political inconsistencies*
4. *What now?*

1. SLOWLY EXITING THE WORST CRISIS SINCE THE 1930s

A difficult transition

- Slow recovery and lower growth

- *Euro area vs US*
- *Risk of debt/ deflation trap?*
- *Weak and declining TFP*

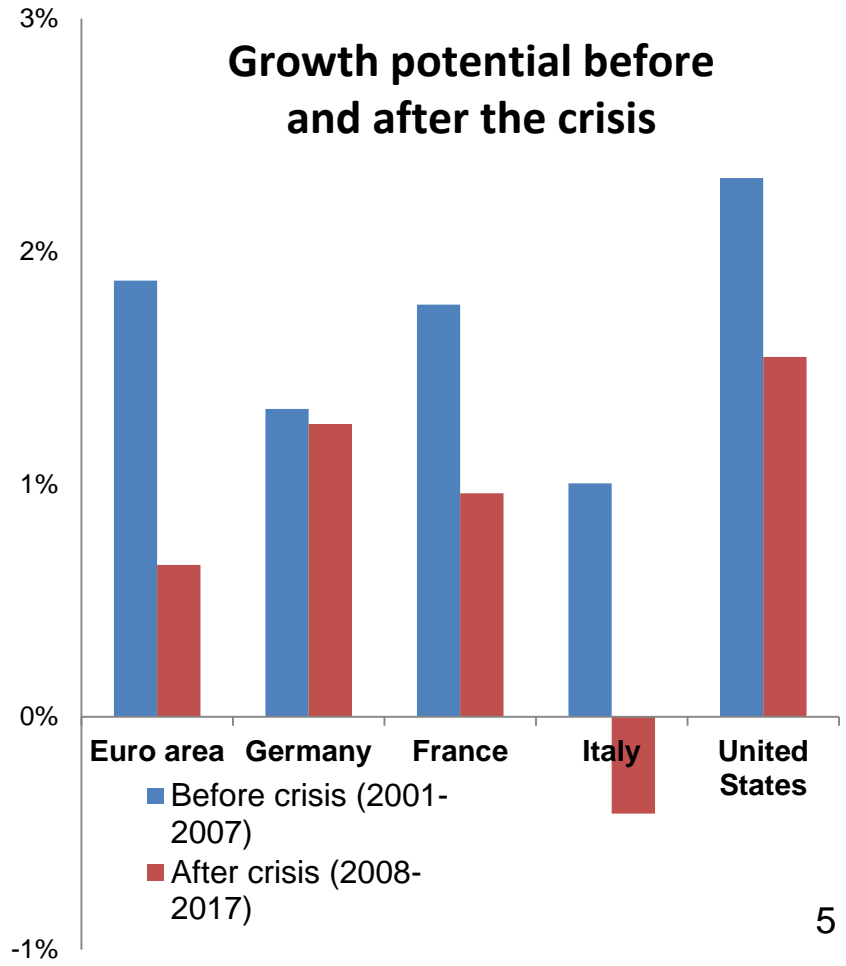
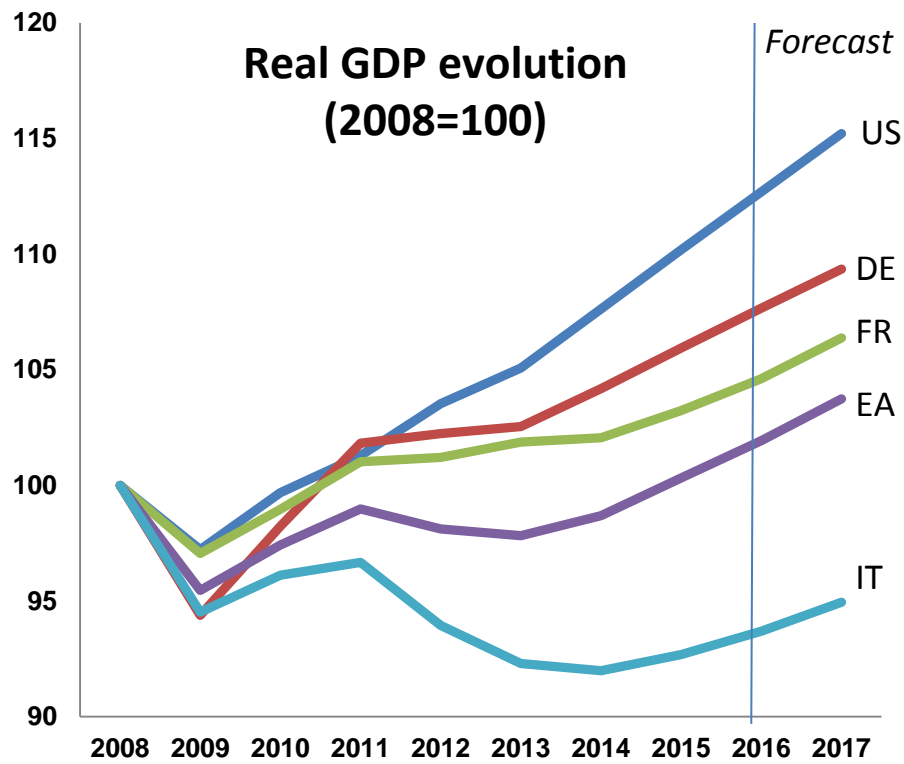
- Weak banks

- *High NPLs*
- *Structural weaknesses*

- High debt legacy

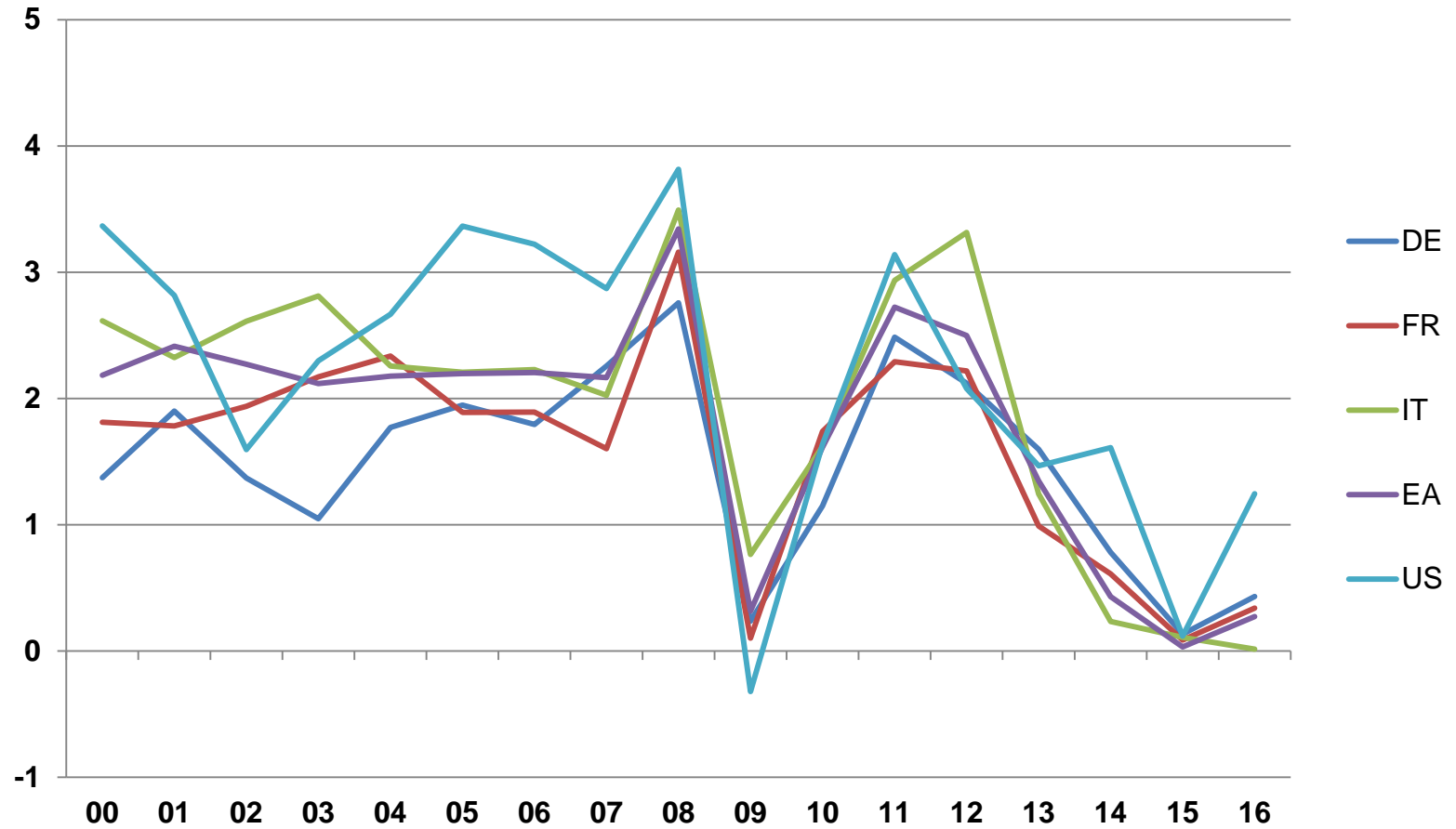
- *Low fiscal space*
- *Deleveraging still ongoing*

Slower growth in the euro area than in the US – but substantial differences among members

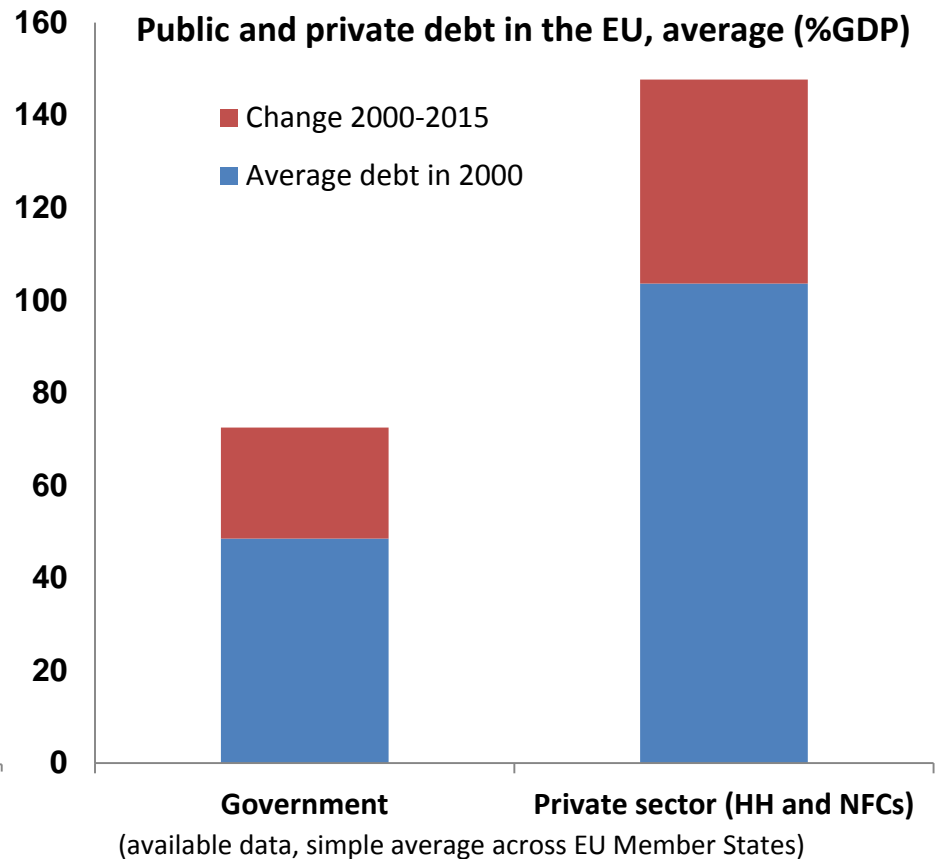
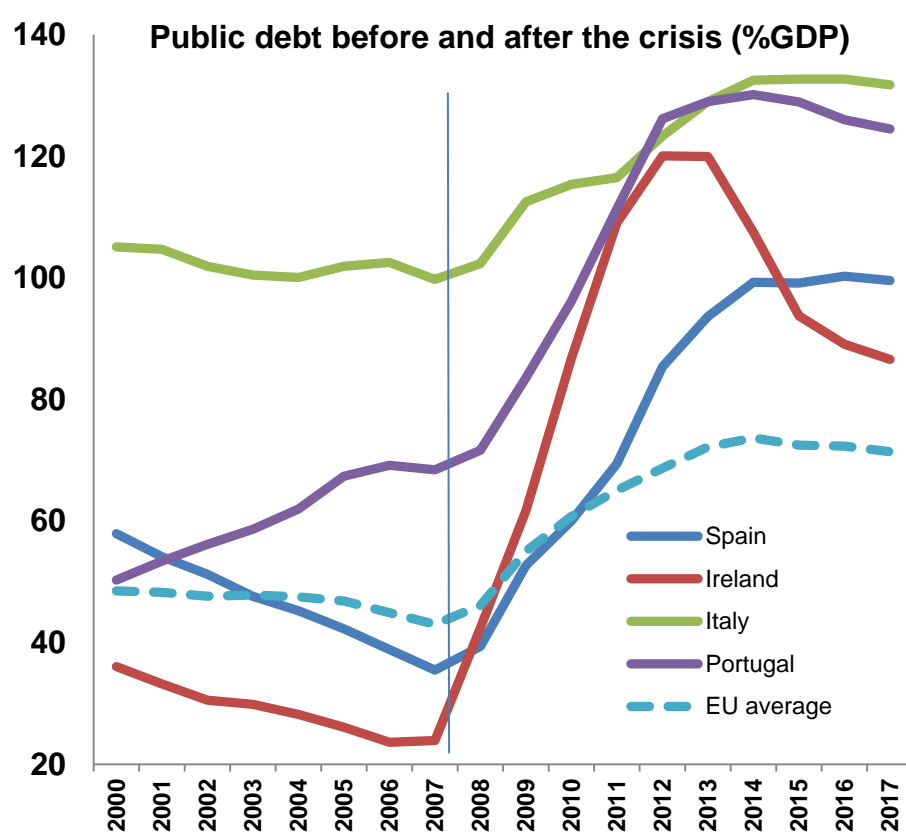


Source: AMECO and ECFIN calculations.

Inflation



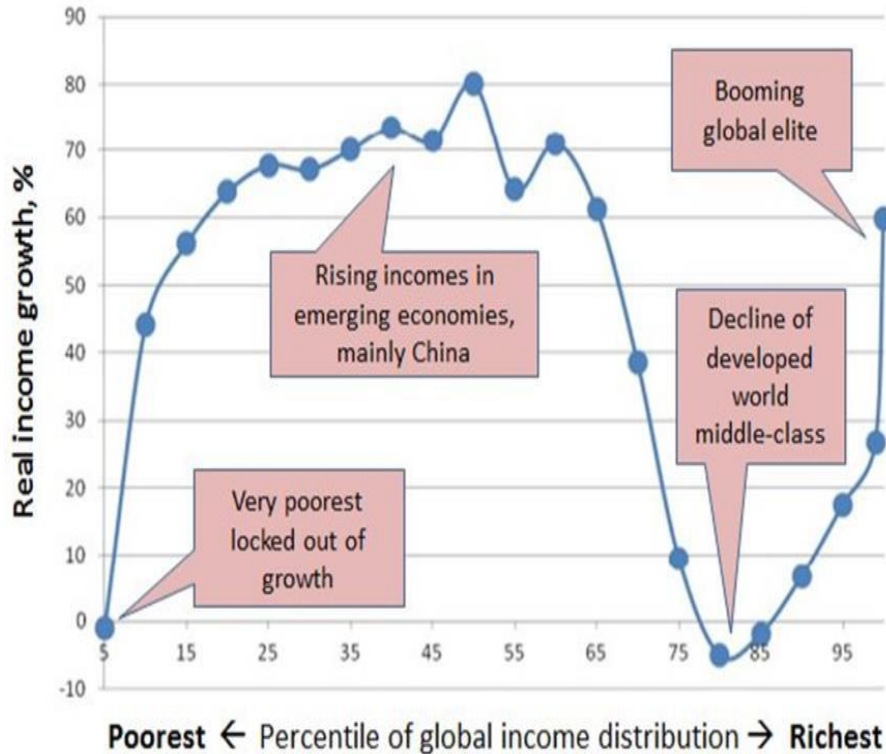
The legacy of debt



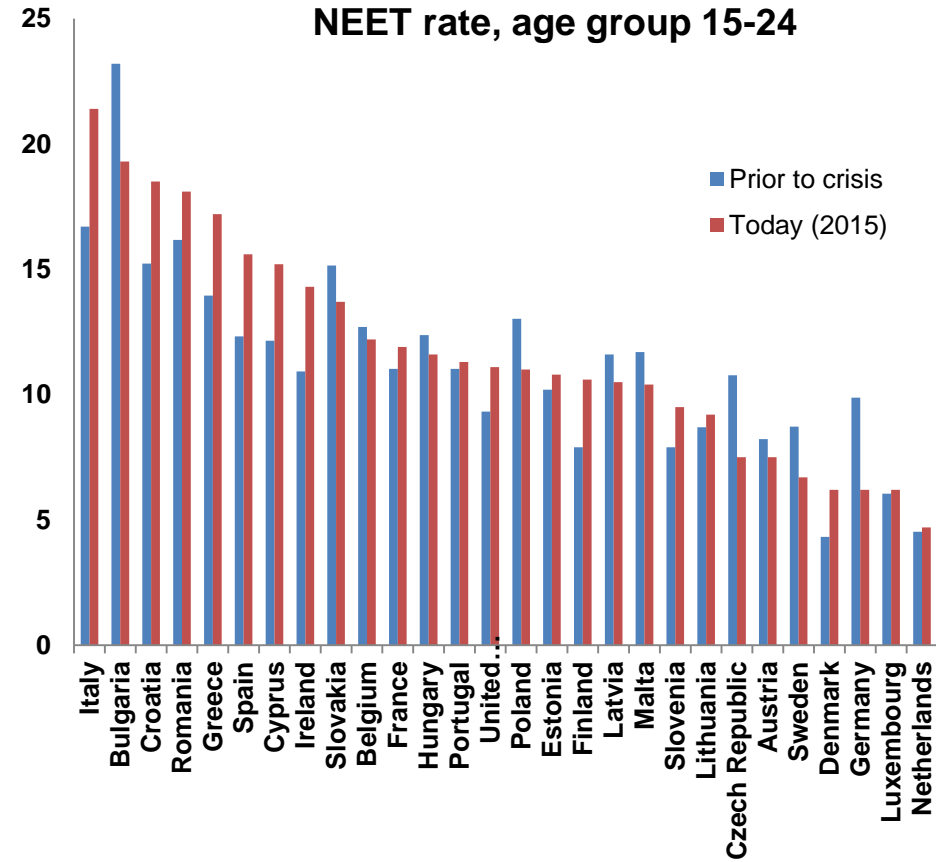
Source: AMECO and ECFIN calculations.

Inequality and Welfare

Global income growth from 1988 to 2008



NEET rate, age group 15-24



Source: AMECO and ECFIN calculations.

Will the recovery continue?

Uncertainty remains extremely high.

Risks have intensified in recent months

External risks

- +/- EME-related, China
- +/- Rebound in non-EU advanced economies
- Increasing protectionism.
- +/- Geopolitical tensions

Domestic risks

- NPL, credit quality, banks
- +/- Reforms delayed
- Vulnerable economies
- Deflation risks







Particular impact of Brexit:

Economic risks: linked to the terms of the UK's exit (trade, migration, FDI,...).

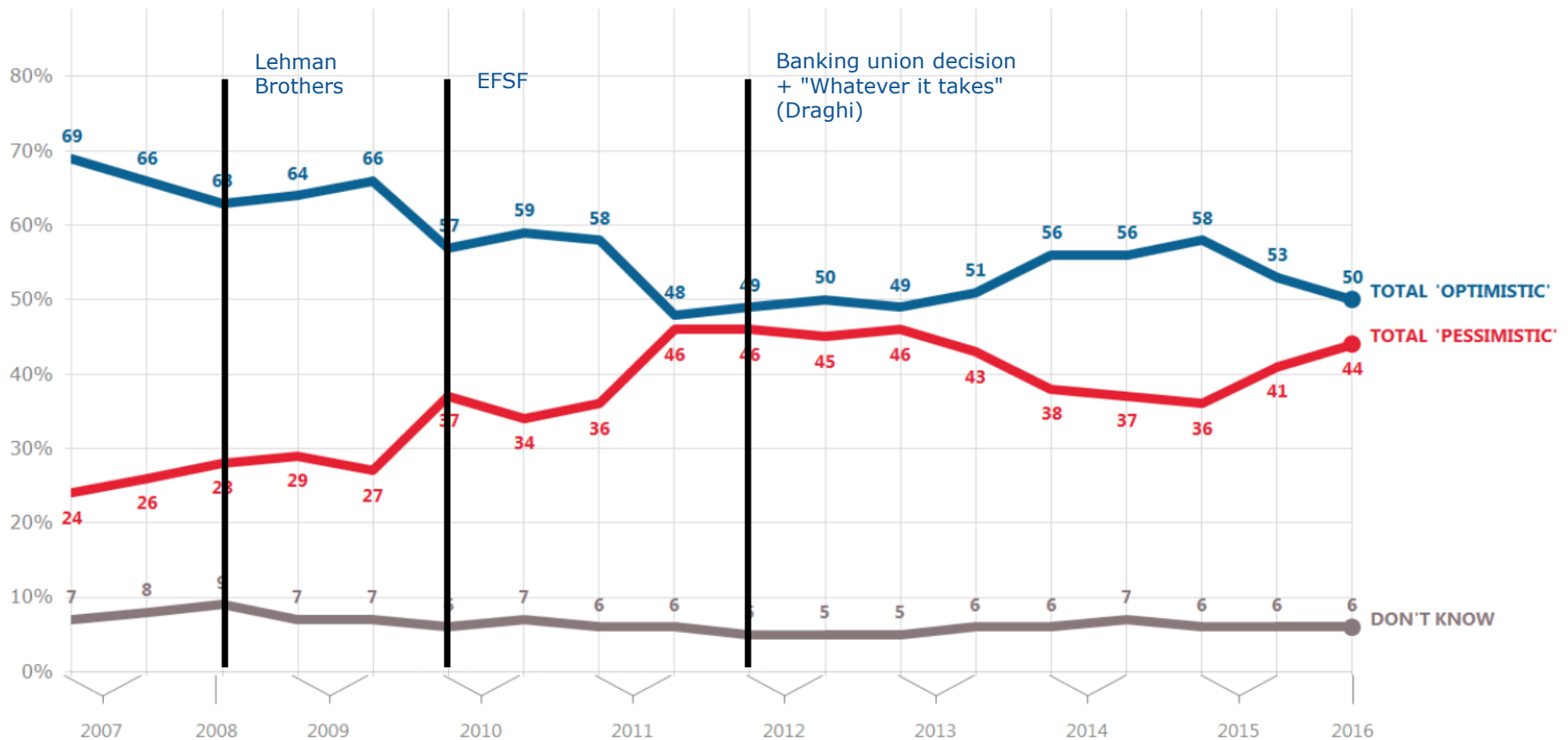
Political risks: Risks to the integrity of the EU and the euro area. Possibly a watershed for protectionism and deglobalisation.

2. WHAT DO CITIZENS WANT? "MORE" OR "LESS" EUROPE?

Further steps towards a more political union?

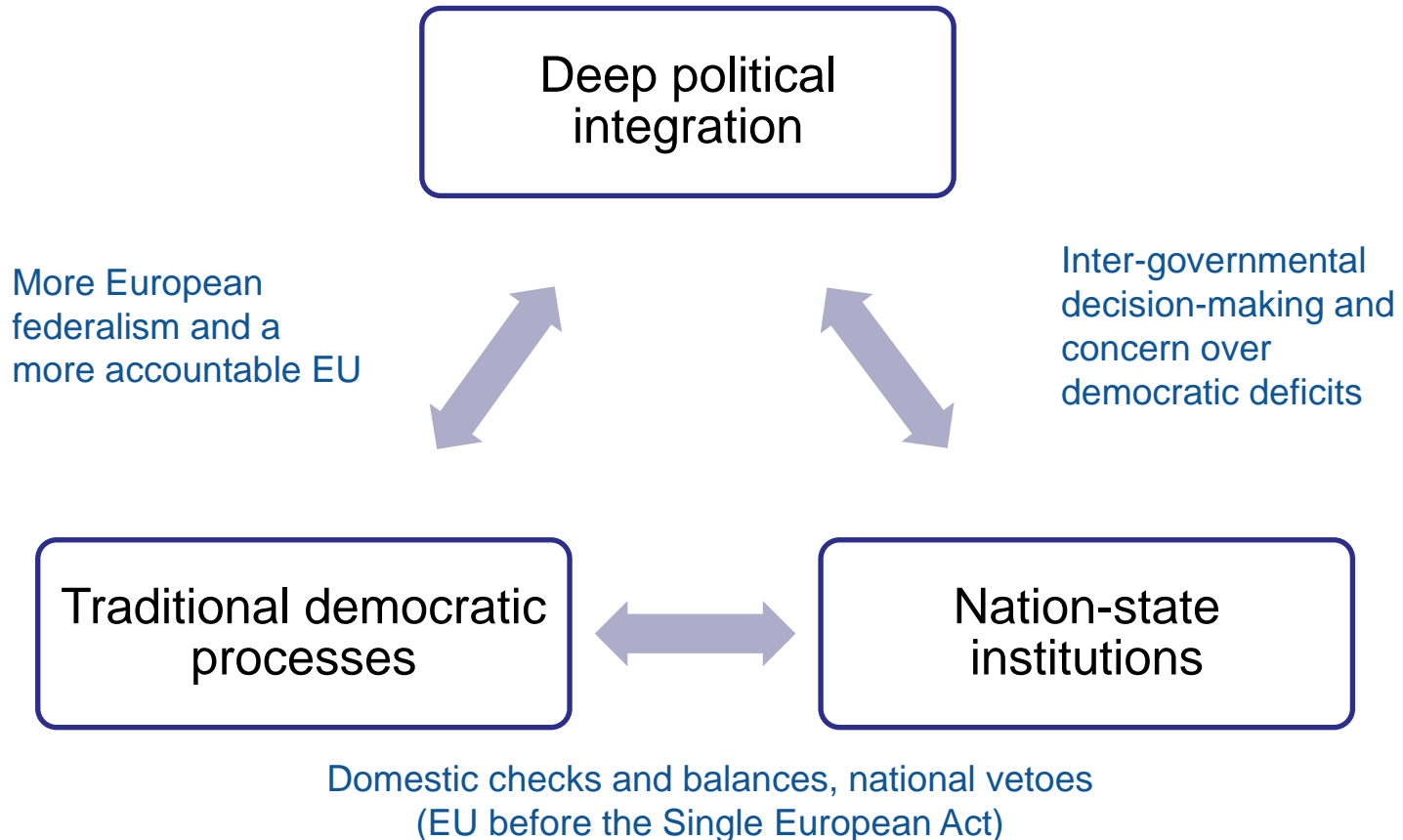
	FR  (%)	DE  (%)	IT  (%)	ES  (%)	BE  (%)	PL  (%)
Creation of a European army	66	47	59	47	65	57
Creation of a European Finance Minister	64	58	65	64	67	60
Election of an EU President by direct universal suffrage	63	71	67	65	68	71

Trust in the future of the EU?

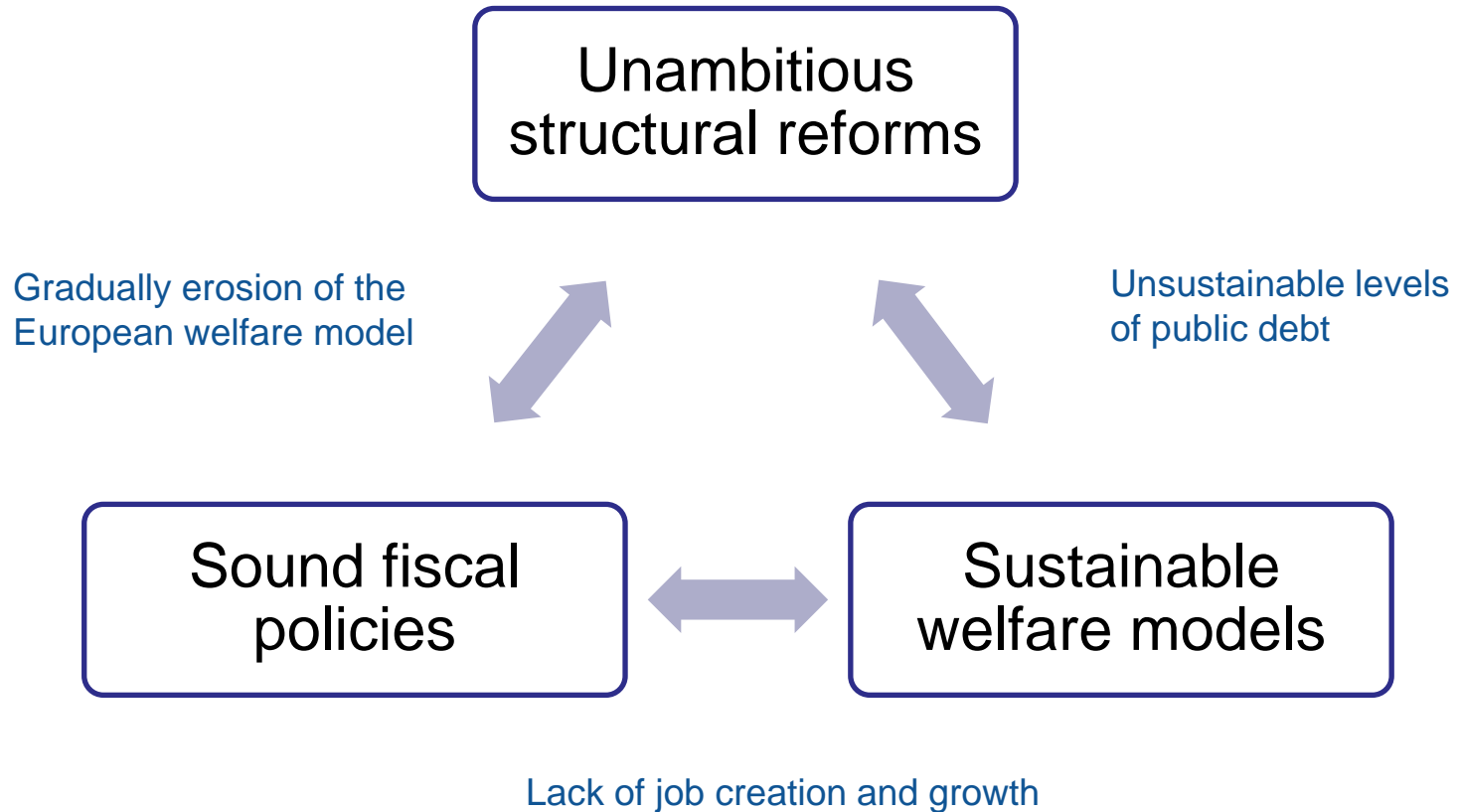


3. OVERCOMING POLITICAL INCONSISTENCIES

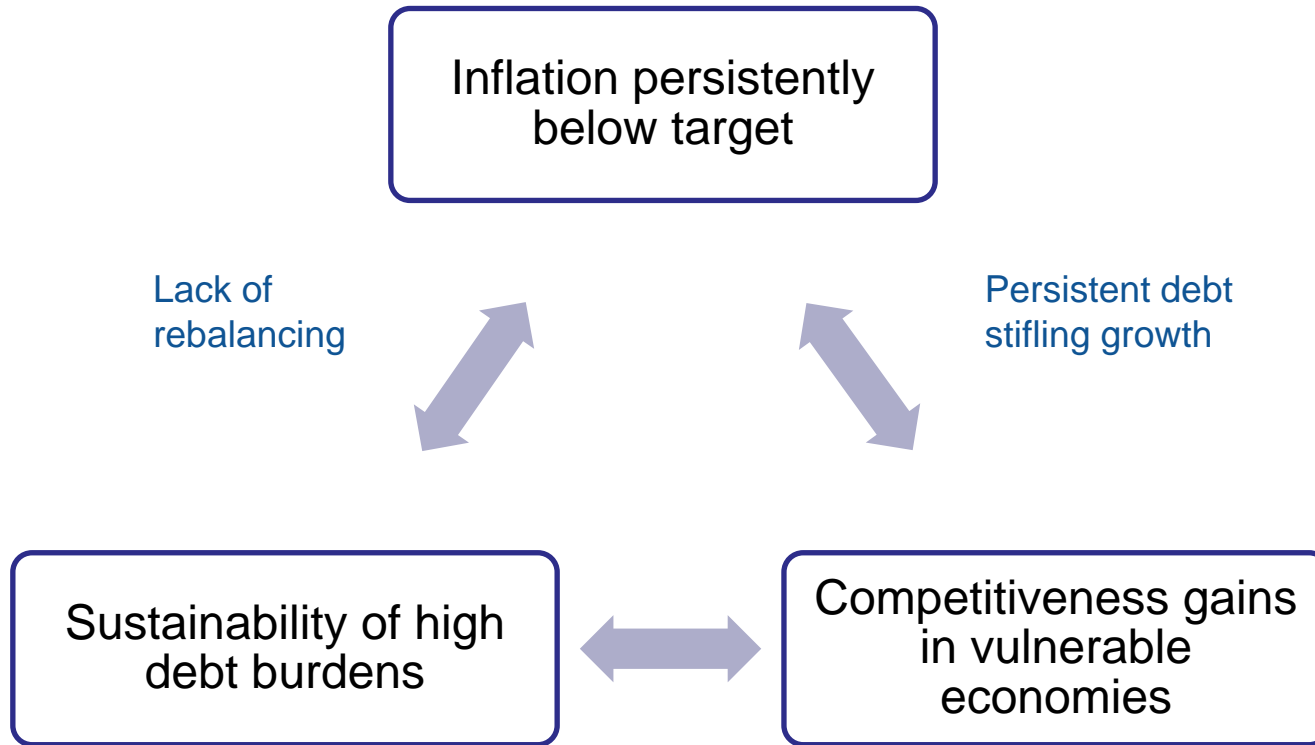
First inconsistent trinity: political integration



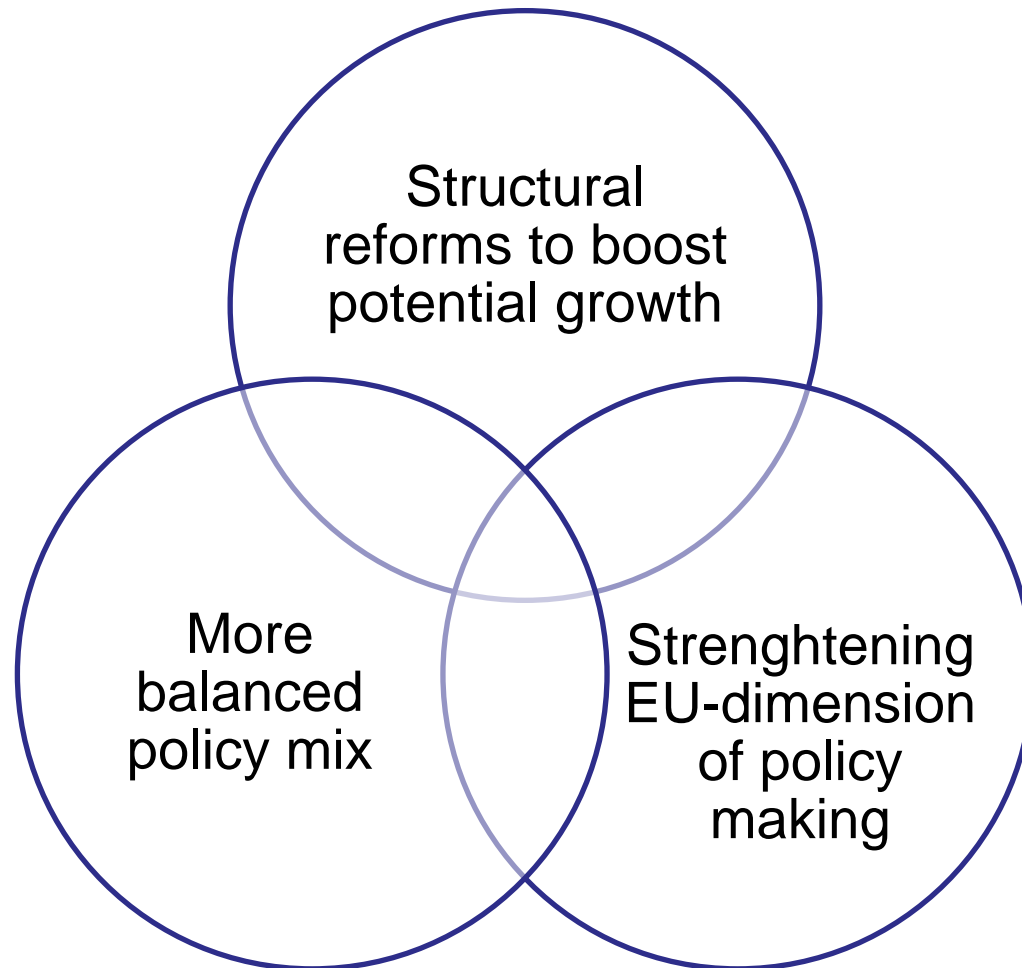
Second inconsistent trinity: economic and social viability



Third inconsistent trinity: adjustment objectives in the euro area



A new political synthesis



4. WHAT NOW?

Expectations 20 years ago

- Globalisation of capital – not labour
- Low skilled priced out while globalisation and technology progress
- Faith in multilateral solutions
- Sharing sovereignty would bring convergence of social preferences and mutual trust
- European inclusive welfare model protects from inequality

... AND NOW?

Bridging different positions

Solidarity

Discipline

Short-term
response

Long-term
reform

Discretion

Rules

Demand
(cyclical/macro)

Supply (potential
growth struct. ref.)

Maintaining
sovereignty

Political Union

All MS (symmetric
adjustment)

Only vulnerable
MS
(asymmetric
adjustment)

Secondary law

Treaty changes

Community
framework

Inter-
governmental

Euro area

European Union

European Policy Priorities

- Implement a strategy for inclusive growth

- *Policy mix for investment*
- *Reforms and distribution effects*

- New EU public goods

- *Security and defence*
- *Rethink EU resources*

- Rebuild trust to complete EMU

- *Risk sharing and risk reduction*
- *Towards the White Paper of March 2017*