

Business cycles, growth and macroeconomic policy

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ECB Forum on Central Banking

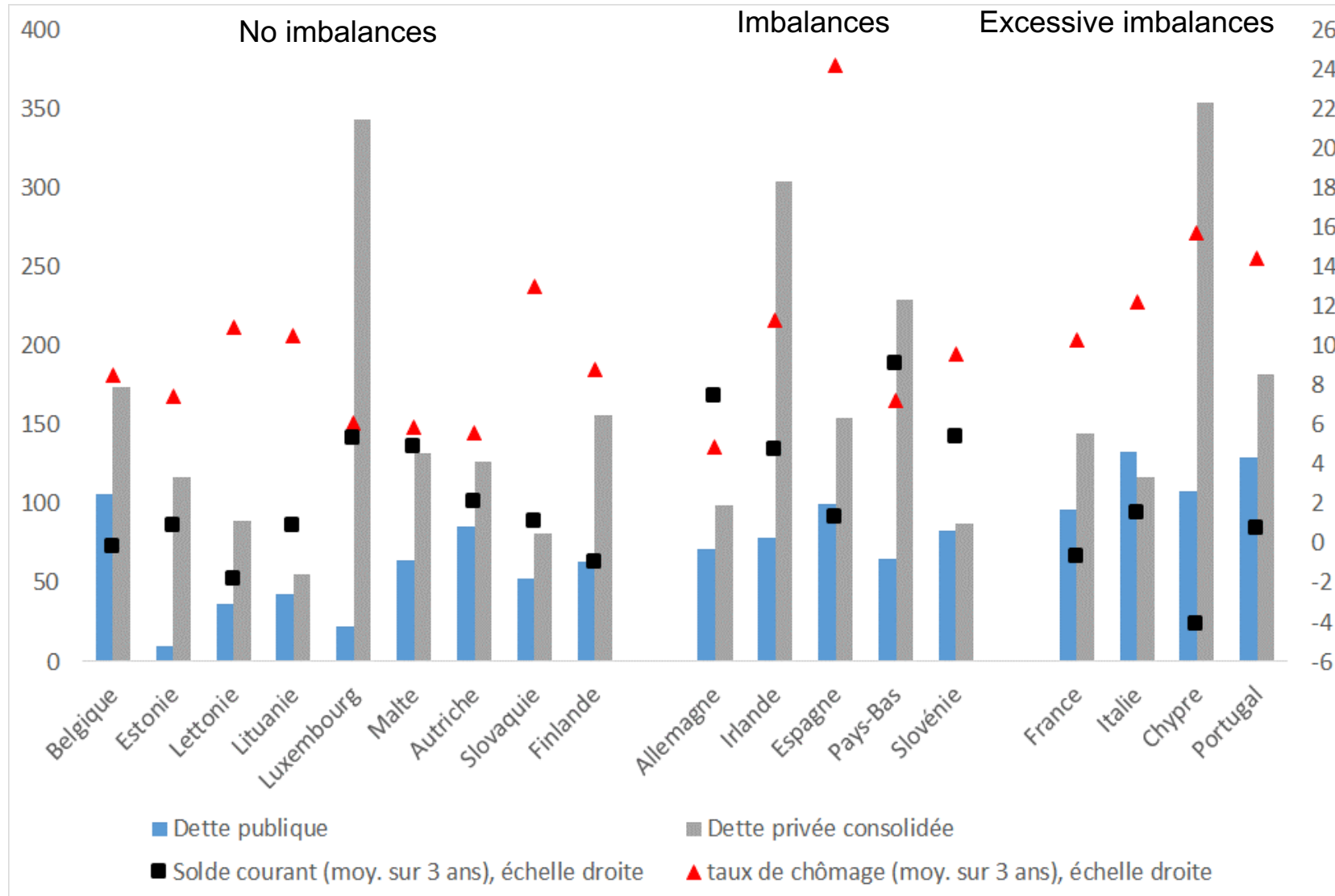
Sintra, 28 June 2017

1. Can the European semester (especially the Macroeconomic imbalance procedure) improve the quality of European macroeconomic policies?
2. How should growth policies take income and wealth distributions into account?

1. European semester (MIP)

Understanding the MIP

(4 indicators from the 2017 semester's scoreboard)



Source : <http://ec.europa.eu/eurostat/web/macroeconomic-imbalances-procedure/indicators>

Four countries with “excessive imbalances”

(European semester 2017)

In-depth reviews

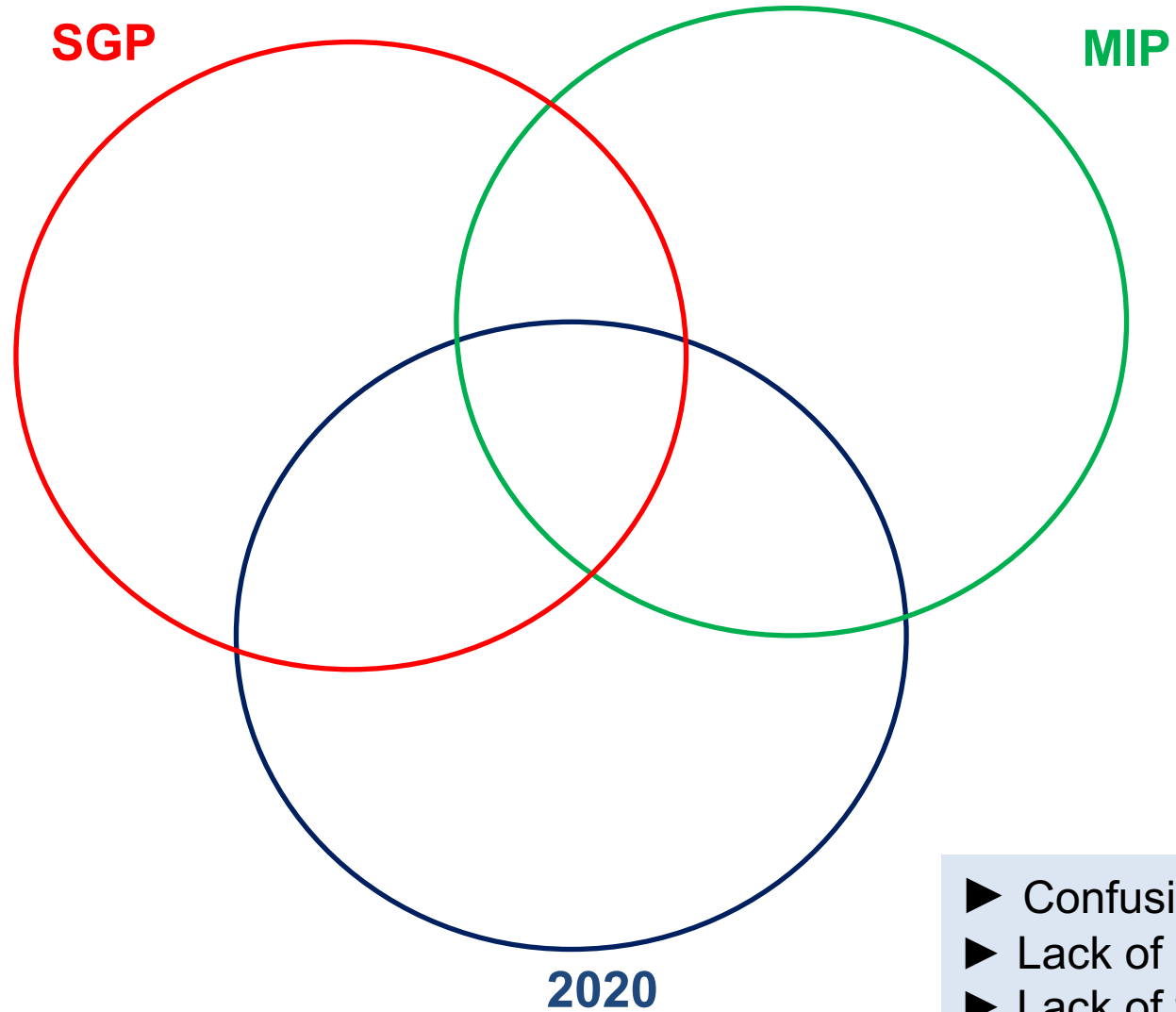
France: productivity, government debt
Italy: productivity, government debt, NPLs, unemployment
Cyprus: NPLs, private and government debt, current account deficit
Portugal: private and government debt, current account, ULCs, unemployment.

Country-specific recommendations

France: fiscal adjustment, tax cuts/base broadening, vocational education & training, min wage, regulatory burden
Italy: fiscal adjust., efficiency of justice, competition laws, NPLs, insolvency, collective bargaining, social spending
Cyprus: fiscal adjust., justice, insolvency, NPLs, public invest., education, employment service
Portugal: fiscal adjust., open-ended contracts, NPLS, SME financing, administrative burden, insolvency.

Source : European Commission, 2017 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011.

Overlaps



- ▶ Confusion
- ▶ Lack of ownership
- ▶ Lack of time frame

Clarification needed

SGP

Objectives: fiscal sustainability
Instrument: govt budget
Horizon: short/medium term, yearly review
Flagship: fiscal balance

MIP

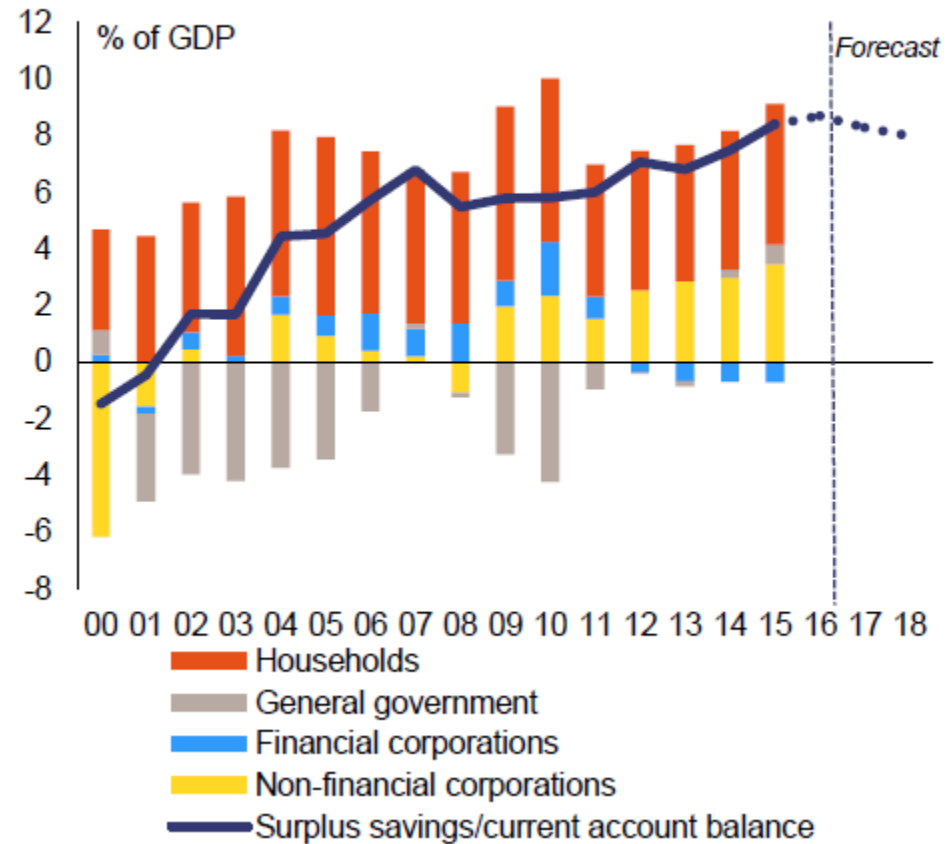
Objectives: financial sustainability & macro stab.
Instruments: macro-pru, taxation, min wage, etc.
Horizon: short/medium term, yearly review
Flagship: current account
+ €zone consistency

Objective: growth (GDP and employment)
Instruments: structural
Horizon: long term, multi-year review
Flagship: LT growth, employment rate

2020

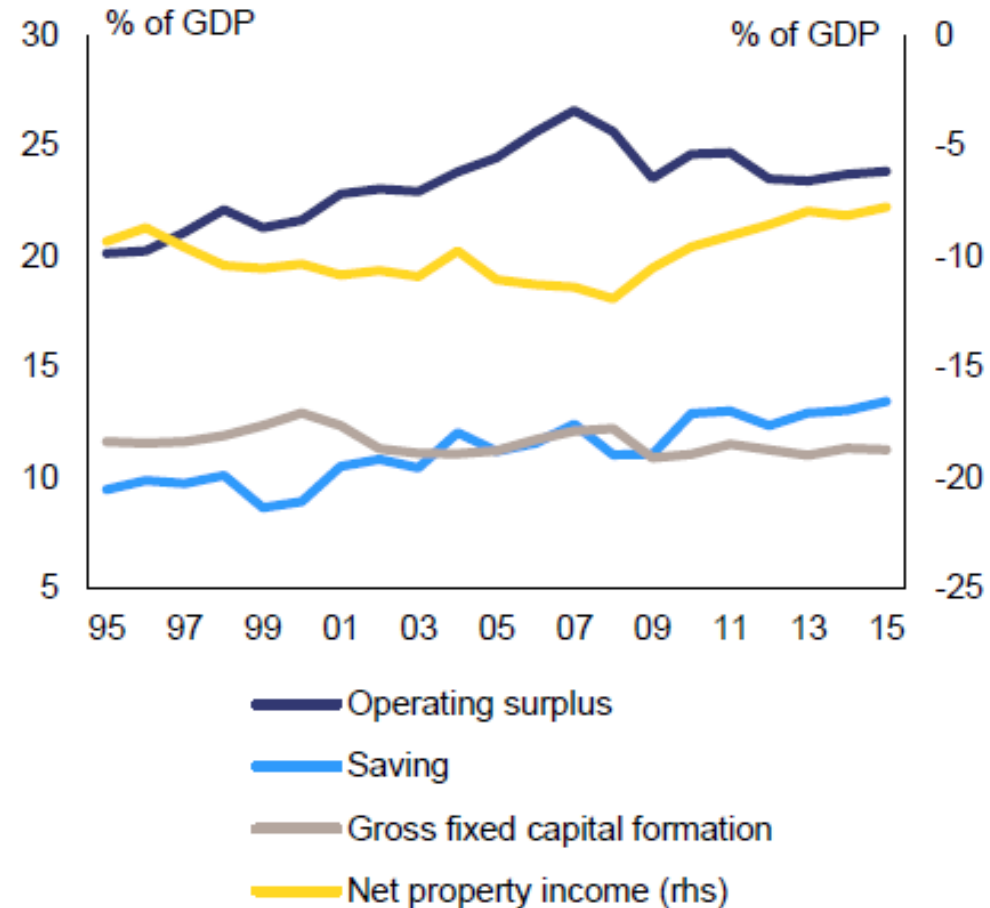
Case study: Germany

Graph 1.6: Sectoral net lending and current account balance



Zoom on Germany's non-financial corporate sector (in percent of GDP)

Graph 4.4.2: Determinants of the savings-investment balance of non-financial corporations

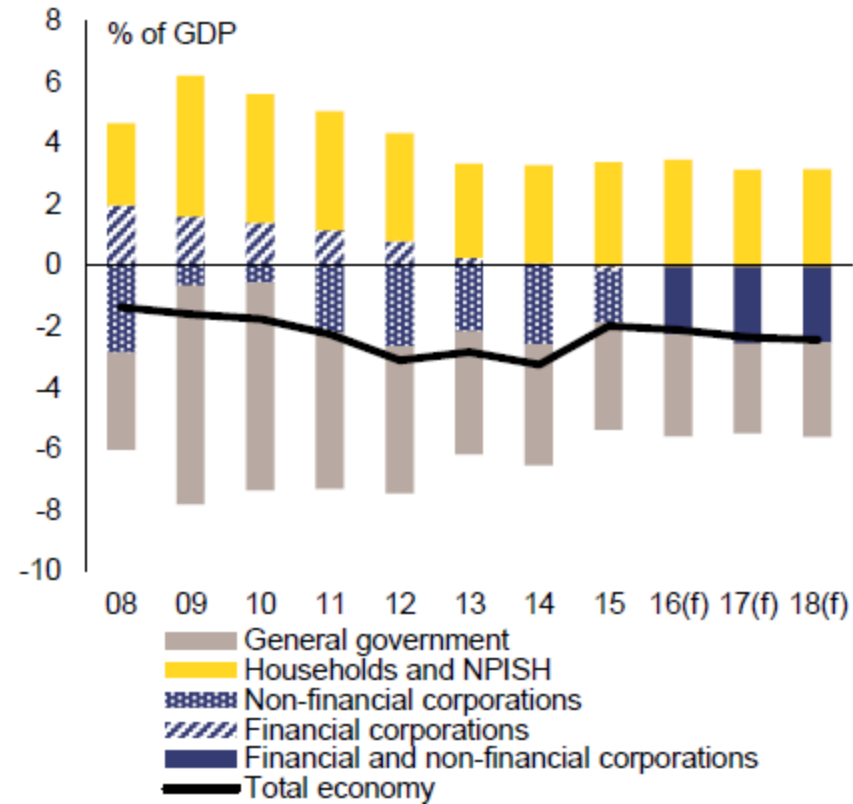


Source: European Commission, Country Report Germany 2017.

Equivalent for France

(in percent of GDP)

Graph 1.5: Net lending/borrowing by institutional sectors – France



Source: European Commission, Country report France 2017.

Demand side / supply side

Germany

Reduce the high tax wedge for low-wage earners.

Create conditions to promote higher *real* wage growth.

Stimulate competition in business services and regulated professions.

France

Consolidate the measures reducing the cost of labour.

Ensure that minimum wage developments are consistent with job creation and competitiveness.

Continue to lift barriers to competition in the services sector, including in business services and regulated professions.

2. Growth policies and inequality

Growth and inequality: the European malaise

13

EU doctrine: boosting productivity through creative destruction

- EU level decides on internal competition + free trade agreements
- The Member states are in charge of compensating the losers
- ▶ Subsidiarity principle.

The doctrine no longer works

- Slower productivity growth
- Rising inequalities + perceptions of unfairness
- ▶ Rejection of further integration

Still, European integration has a lot to deliver

- Trade intensity compared to US states: 1/4. Move to 1/2 would yield around +14% of income per capita (Aussilloux and Emlinger, 2011)
- ▶ Services sectors

Two strategies for the EU

14

- Empower member states through tax and social coordination
 - Taxes on capital: 8% of GDP; No downward trend but rise in capital share + incorporation should have lifted this ratio
 - Displaced workers: around 1% of employment, but extensive abuse and fraud
- Revisit European instruments
 - Globalisation Adjustment Fund: maximum annual budget of EUR 150 million for the period 2014-2020. Each application needs to be approved by Council and EP + co-financed. 0.05% of the labour force over 9 years. <7000 in 2016.
 - « Timely Temporary and Targeted Transfers » (TTTT): US-style unemployment insurance (temporary extension of coverage in very bad times)
 - Jobs union based on (i) labour market convergence, (ii) non-distorted mobility and (iii) individual protection.
 - Combines (i) incentives to reform, (ii) automatic demand stabilization, (iii) solidarity at individual level.

Country-specific recommendations for Germany 2017

1. **Use fiscal policy to support domestic demand** and achieve a sustained upward trend in investment. Accelerate public investment at all levels of government, especially in education, research and innovation, and address capacity and planning constraints for infrastructure investments. **Further improve the efficiency and investment-friendliness of the tax system. Stimulate competition in business services and regulated professions.**
2. Reduce disincentives to work for second earners and facilitate transitions to standard employment. Reduce the high tax wedge for low-wage earners. Create conditions to **promote higher real wage growth**, respecting the role of the social partners.

→ Supply side or demand side?