BUNDESKANZLERAMT ÖSTERREICH
VERWALTUNGSAKADEMIE DES BUNDES
SCHLOSS LAUDON

Forschungsschwerpunkt
Internationale Wirtschaft
Kompetenzzentrum

Bundesministerium für
Wissenschaft, Forschung und Wirtschaft

Seminarreihe

Aktuelle volkswirtschaftliche Fragen im Rahmen von internationaler Wirtschaft und Europäischer Integration

Seminar 1:	„Neue Erkenntnisse der Außenwirtschaftstheorie – von Ricardo bis Melitz" mit Ingrid KUBIN (WU)		27.3.2015
Seminar 2:	**„Europäische Integration" mit Michael LANDESMANN (FIW/wiiw)**	**Teil 1**	**26.6.2015**
Seminar 3:	„Freihandelsabkommen" mit Fritz BREUSS (FIW/WIFO) und Stefan SCHIMAN (WIFO)		9.10.2015
Seminar 4:	„Open Markets Matter" mit Manfred SCHEKULIN (BMWFW)		1.12.2015

Michael Landesmann

FIW-Seminar – BKA 2015 – Juni 2015

Europäische Integration

Inhalt: In diesem Seminar werden folgende Themen besprochen:

i) Ökonomische Argumentation der Effekte von EU-Marktintegration: Produkt-, Kapital-, und Arbeitsmärkte;
ii) Ökonomische Analyse der Währungsunion;
iii) EU-Erweiterung: Effekte auf Wachstum und Systementwicklung in Mittel- und Osteuropäischen Ländern;
iv) Gründe für die aktuelle EU/EMU-Krise und Evaluierung von Reformschritten.

i) Ökonomische Argumentation der Effekte von EU-Marktintegration: Produkt-, Kapital-, und Arbeitsmärkte

Single Market Program - 1992:

Economies of scale: level effects and growth effects (Baldwin); harmonisation of standards; reduction of entry barriers; impact on entry/exit – market structure – numbers of 'variety' (models of monopolistic competition; Smith/Venables studies); overcome discrimination on public procurement. Exclusion of health standards and health system from single market regulation.

Common/supranational competition and trade policy

Capital/financial markets: no common regulation and supervision

Labour markets: free mobility; argument for better matching; adjustments to shocks – relevant argument for Optimum Currency Area (OCA-'Optimale Währungszone'; R. Mundell 1.0 and 2.0); policies to encourage mobility: educational mobility (Erasmus, etc), degree recognition and unification; portability of pensions etc. Sensitive issue: social security entitlements. No common migration policy.

Single Market Assessment: detailed ex post studies on price dispersions, remaining barriers, etc. Missing issues: services sector – barriers persist, energy – lack of proper integration; missing joint financial market regulation and supervision.

Apart from market integration: Cohesion Policy/Structural Funds; stimulating convergence or transfer mechanism; contradictory evidence on effectiveness

Very limited move towards tax harmonisation.

Social Charter with opt-outs.

ii) Ökonomische Analyse der Währungsunion

Comes after other arrangements (e.g. EWS; 'Snake'/'Schlange') have failed. Move towards EMU based on *Trilemma* (free capital movements, independent monetary policy and exchange rate stability jointly incompatible). Before EMU: countries had lost independent monetary policy (such as Austria) if exchange rate peg was chosen, or exchange rate stability had to be given up (exchange rate crisis in 1993 with Sterling, Peso, Lira being thrown out of the 'snake').

Comprehensive analysis of conditions of OCA: labour mobility; diversified production/trade structure; financial market integration (Mundell 2.0: diversification of asset holding as protection against 'idiosyncratic shocks'); US-EC comparisons.

Maastricht criteria: stability of exchange rate; convergence of inflation and interest rates; fiscal conditions

Accompanying fiscal policy considerations: EMU/EWU means centralised monetary policy. Why does this require imposition of conditions for fiscal policy i.e. max 3% deficit 60% public debt rules)?

Fear of monetising debt – externality effect of each country's fiscal policy; ECB's monetary policy would react to aggregate inflation. Hence a fiscally profligate country imposes higher interest rates on other countries. This effect exists even without any 'bail-out' issue. These fiscal rules were tightened further after the recent financial crisis.

The big neglected issue prior to the crisis: joint responsibility for the banking system. For two reasons: contagion effects plus the switch of private debt into public debt. → only started to be addressed in the wake of the crisis (see (iv) below).

How to deal with the additional issue of possible sovereign debt default in EMU? Distribution of costs of debt default.

Another neglected issue: joint responsibility for fiscal stabilisation policy; fiscal policy coordination. Is the enforcement of 'fiscal rules' enough?

iii) EU-Erweiterung: Effekte auf Wachstum und Systementwicklung in Mittel- und Osteuropäischen Ländern

Transition economies: initial (deep) transition recessions due to switch towards a radically new allocation system – debate 'gradualist' vs. 'shock therapy' transition. Radical trade reorientation – big shock to industrial capacities. Secondary transition crises due to mishandled privatisation programs; failures in monetary and exchange rate policies – premature pegs to Euro leading to overvaluations of exchange rates → current account crises

Hope for 'convergence' processes: 'efficiency' improvements through better allocation of resources, competitive incentives to supply in a market environment. Major force: Net capital inflows as main vehicle to cover current account deficits in a phase of catching-up (in Europe: capital moved 'down-hill').

Plus FDI as vehicle for technology transfer, build up of production and export capacities.

Much emphasis in the literature (EBRD, World Bank) on 'institutional convergence' and its effect.

Highly differentiated developments of different groups of CEECs: see slides which show differential vulnerability in the build-up to the recent financial crisis.

Overall strong evidence of 'convergence', but generally high growth rates prior to the crisis hide differentiation in terms of external and internal imbalances.

Question of move and timing towards EMU membership: are Maastricht criteria sensible? – Balassa-Samuelson processes of real exchange rate appreciation. What about uniformity of fiscal rules for countries with different potential growth trajectories?

Expected future developments? Will convergence persist? See also 'stuck in transition' dangers (EBRD Report). Why so much differentiation? What about intra-country regional developments? What about longer-term external imbalances in the European economy constraining catching-up? See second presentation

iv) Gründe für die aktuelle EU/EMU-Krise und Evaluierung von Reformschritten

Crisis started in US (sub-prime and banking crisis) followed by contagion effects to European economies (Iceland, Ireland, Portugal, Spain). Why did it hit European economies longer than the US?

Specific country reasons: huge private sector debt build-up in some countries; real estate bubbles leading to banking crises (Iceland, Ireland, Spain). 'Unforseen' interest rate convergence? What lies behind it?

Specific features of EMU construct: De Grauwe: Missing (proper) lender of last resort; ECB cannot act fully as such.

Responsibility of bank bail-outs remained with national authorities. Contagion effects but no joint responsibility for dealing with systemically relevant banks/financial institutions. 'Banking Union' remains very incomplete (3 pillars: bank supervision/regulation; bank restructuring/recapitalisation; deposit insurance) and unlikely to be completed for some time.

Public debt emerges from private sector debt, banking crises and recessions. Asymmetric constraints faced by countries to stabilise economy through counter-cyclical policy; in fact, countries pursue pro-cyclical policy. Plus: 'zero bound' situation leads to greater multiplier effects (see IMF, Summer/DeLong). Costs of refinancing of debt hits debtor countries much more strongly (implicit subsidy to 'strong economies' which become net capital importers).

Reform measures: Stricter fiscal policy rules to give a semblance of enforcing 'no bail-out' clause. Nonetheless strong support packages for Ireland and all Southern economies (also some CEECs).

Adjustment mechanisms to external disequilibria seriously limited in currency union. Translates into persevering unresolved debt problems. Disadvantages to rely on 'internal devaluation' (especially in the context of zero or low inflation); better to plan ex-ante (e.g. productivity-oriented wage policy; incomes policy). EU moves towards 'Imbalances Procedures'; do they have any bite?

Very hesitant move to provide common 'stabilisation fund' – EFSF then ESM.

After very first expansionary fiscal policy reaction to crisis very little fiscal policy coordination – leads to explicit and implicit 'austerity bias' in the EMU. Pretty strong criticisms by economists but does not affect policy-making. Most recently attempt towards joint investment stimulus – 'Juncker Plan'.

Discuss differentiated situation of Southern EU economies and of CEE economies; plus Greek crisis.

Thema 2: Convergence, divergence and the problem of external imbalances in the European economy