

A Fiscal Union?

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References

- **iAGS report 2016**
- **“Which Fiscal Union for the Euro Area?”**, Agnes Benassy-Quere, Xavier Ragot, Guntram Wolff, CAE note
- **“What Policy Mix for the Euro area”**, Agnes Benassy-Quere, Xavier Ragot, CAE note

Symptoms and problems:

- Brexit
- Popular discontent (Austria, France, Germany)
- Banking problem in Italy and the banking union

Need for new initiatives : Five president report
but should avoid “superficial” answers

- Difference between cycles and trends
- Legacy debt and new architecture (governance)

Triangle of our problems

Demand side

- inequality
- European support

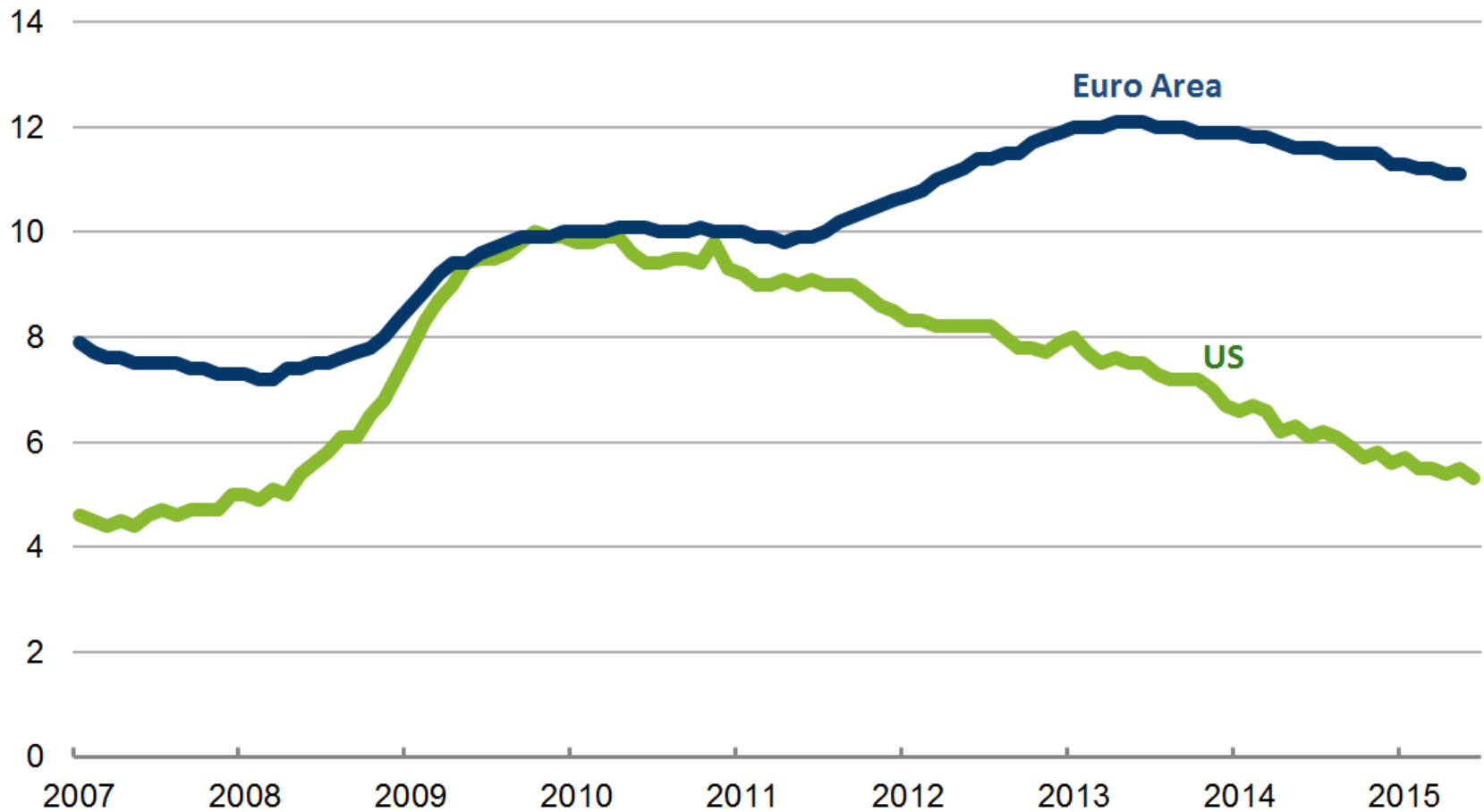
Supply side

- Nominal
- Real

Fiscal side

Banking problem (NPL)

Figure 1: Unemployment Rates (%)

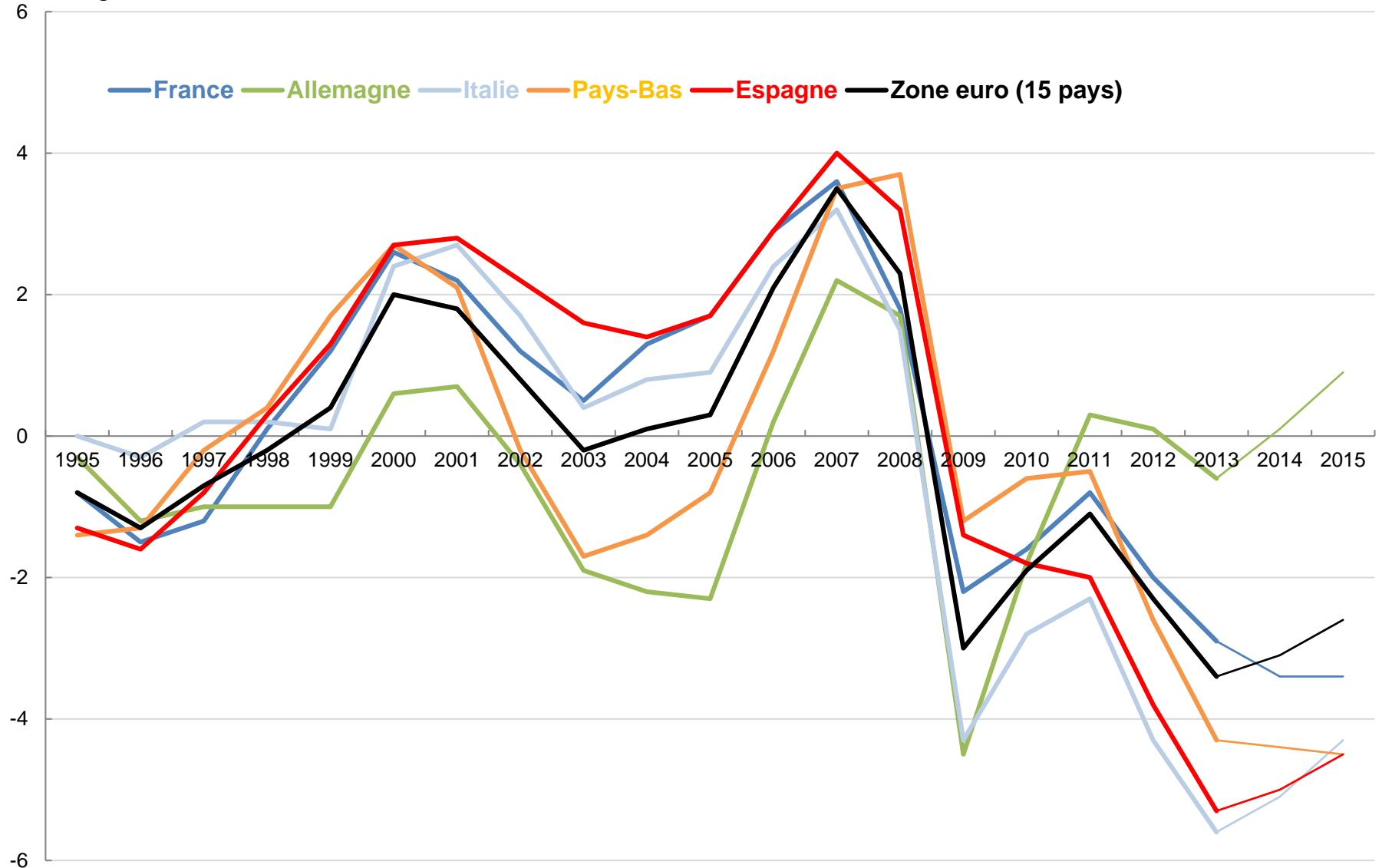


Sources: BLS and Eurostat

BROOKINGS

The Demand Problem. Output gap en zone euro

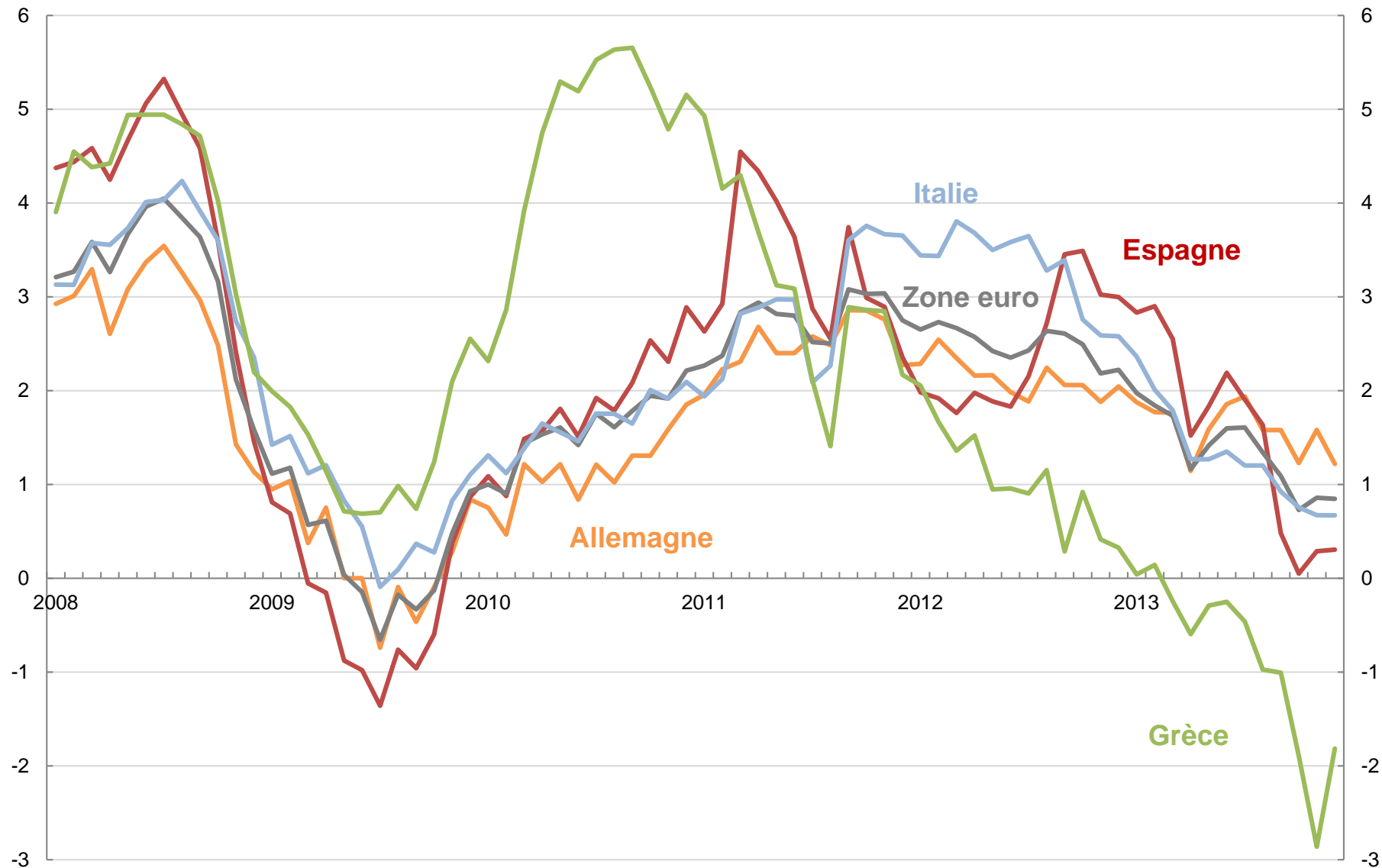
Percentage of GDP



Source : OCDE

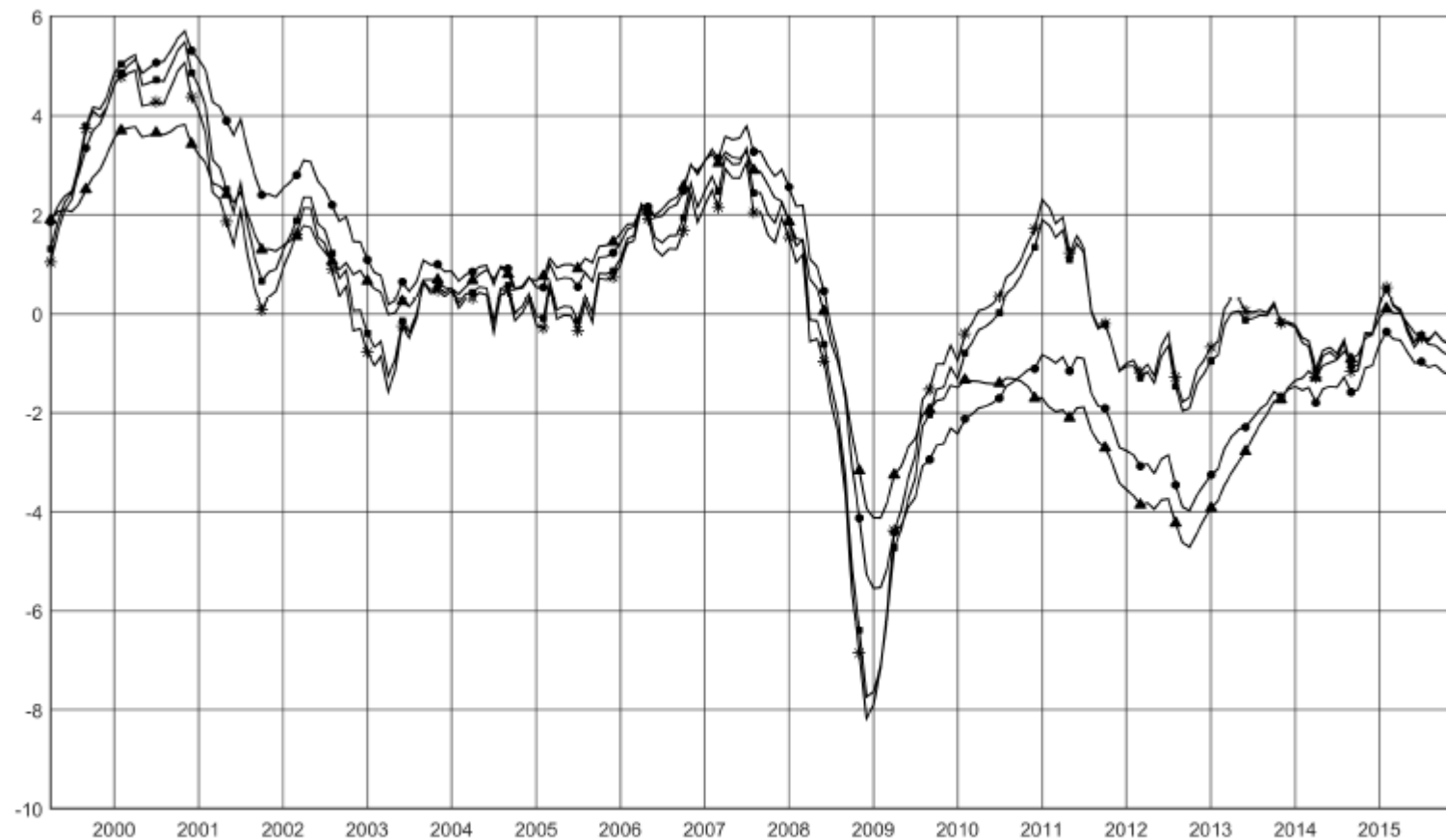
The Demand Problem. Inflation

En glissement annuel, en %



Source : Eurostat

Natural interest rates



Note. Germany: stars, France: squares, Italy: dots, Spain: triangles.

Fries, Mesonnier, Mouabbi, Renne (2016), Laubach and Williams (2003) methodology.

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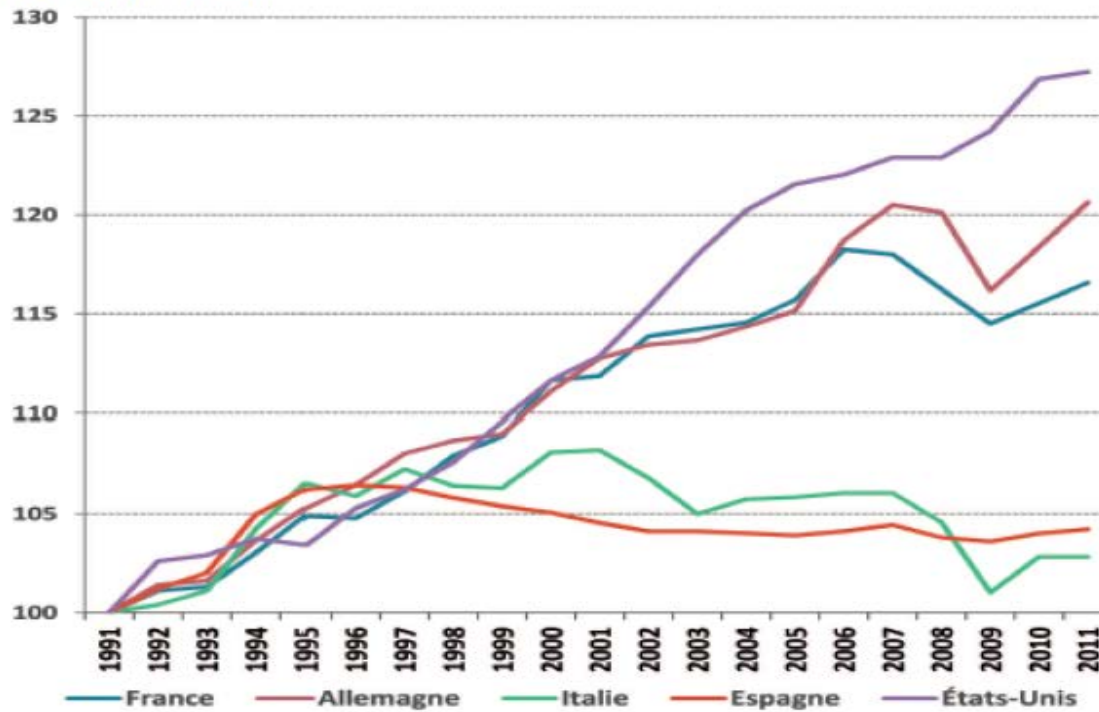
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- Real

Fiscal side

Banking problem (NPL)

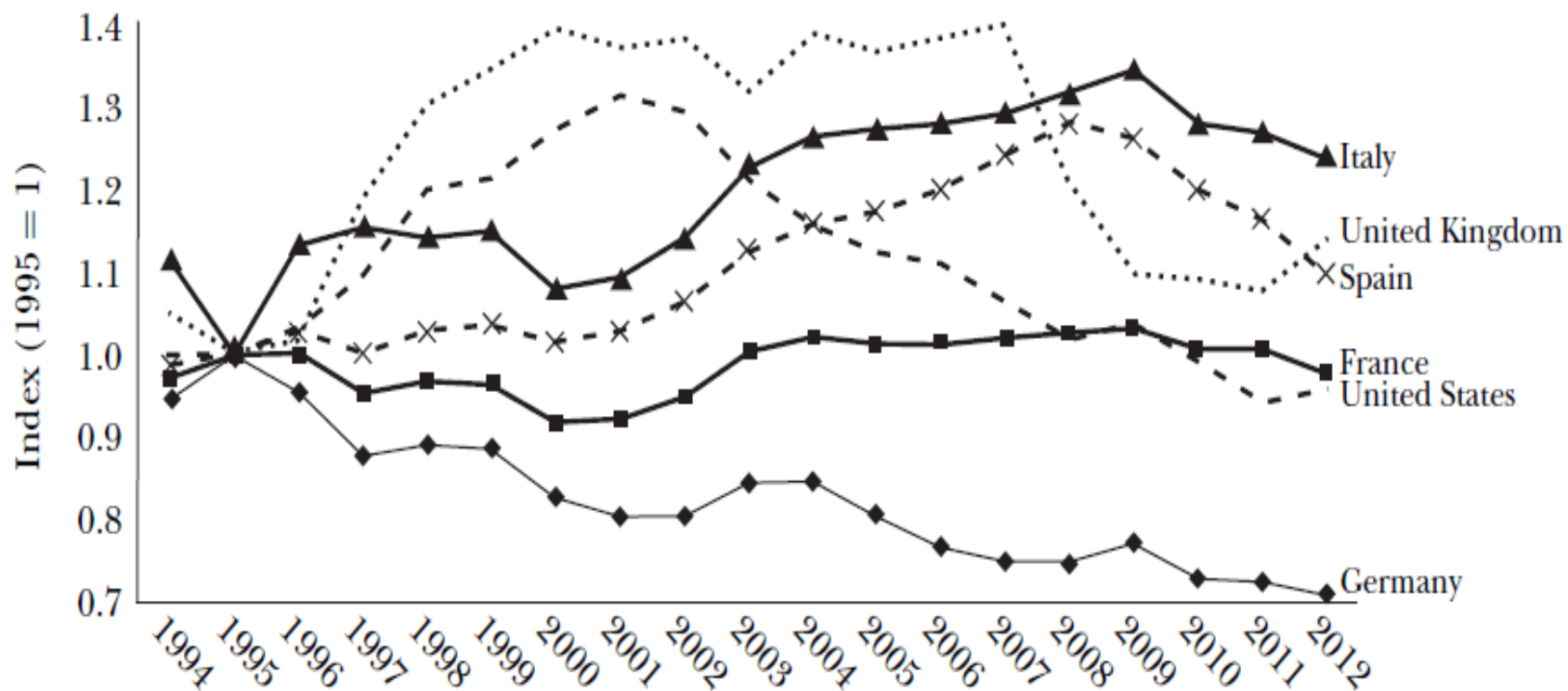
PRODUCTIVITÉ GLOBALE DES FACTEURS ENSEMBLE DE L'ÉCONOMIE

Base 100 = 1991



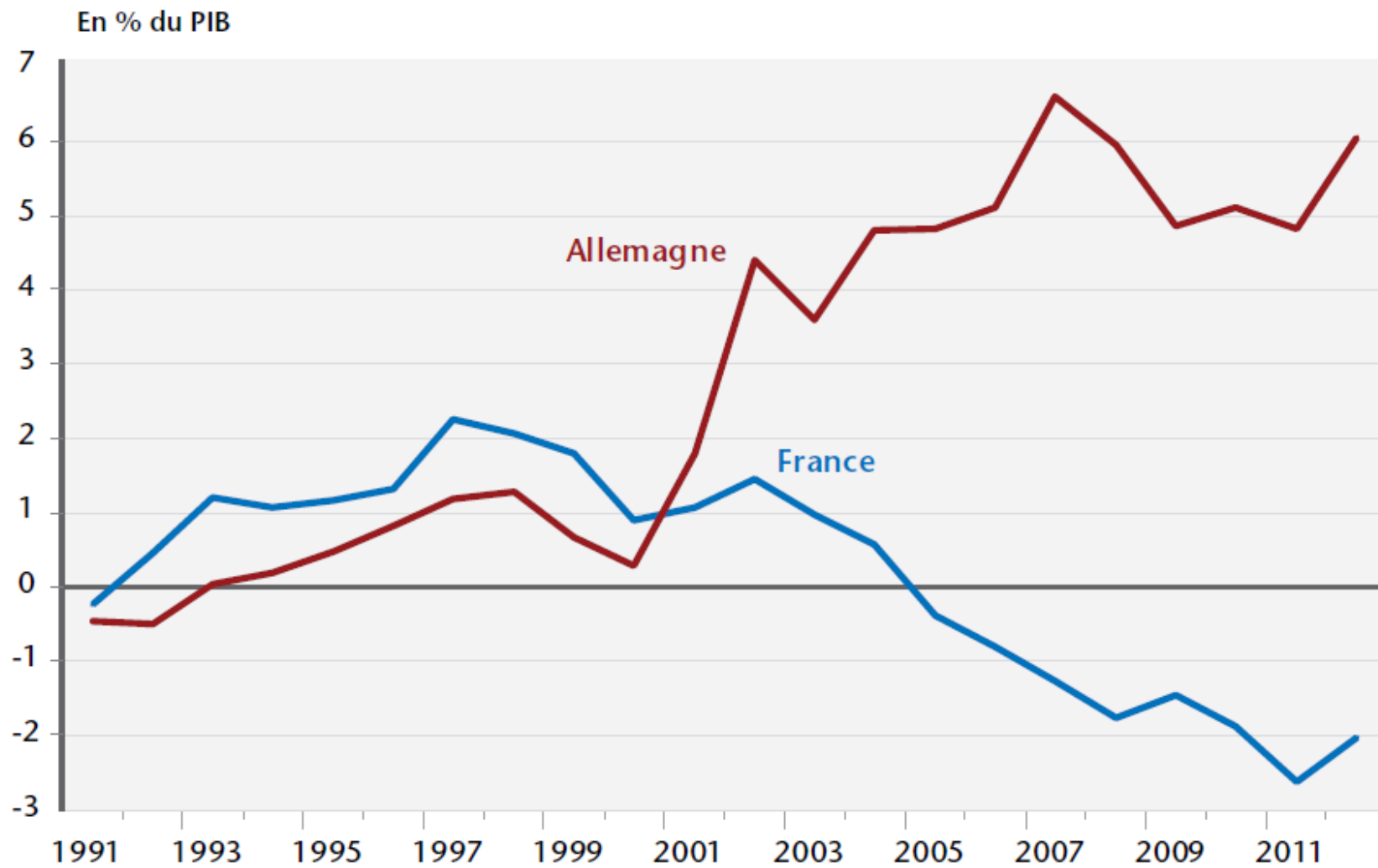
Source : OCDE.

Supply : Weighted Unit Labor Cost



Source : Dustmann, Fitzenberger, Schönberg, et Spitz-Oener (2014)

Current account



Source : Insee, Destatis, calculs des auteurs.

Necessary adjustments... The internal devaluation

Table 6. Price adjustments needed to correct external imbalances
(as of end of 2014)

	NIIP target (in % of GDP)	REER adjustment (in %)	VA price adjustment (in %)	VA price adjust- ment relative to Germany (in %)
AUT	2.2	+17.4	+31.5	+1.4
BEL	57.2	-10.2	-0.4	-23.2
DEU	42.3	+23.5	+29.7	0.0
ESP	-35.0	-0.4	+5.7	-18.5
FIN	-0.7	-7.4	-2.3	-24.7
FRA	-19.5	-2.5	+4.9	-19.1
GRC	-35.0	-25.8	-22.0	-39.8
IRL	-35.0	+5.6	+10.4	-14.9
ITA	-27.9	+10.1	+16.8	-9.9
NLD	60.8	+22.9	+30.8	+0.8
PRT	-35.0	-4.6	+2.0	-21.4

Source: iAGS calculation.

Source: iAGS

Triangle of our problems

Demand side

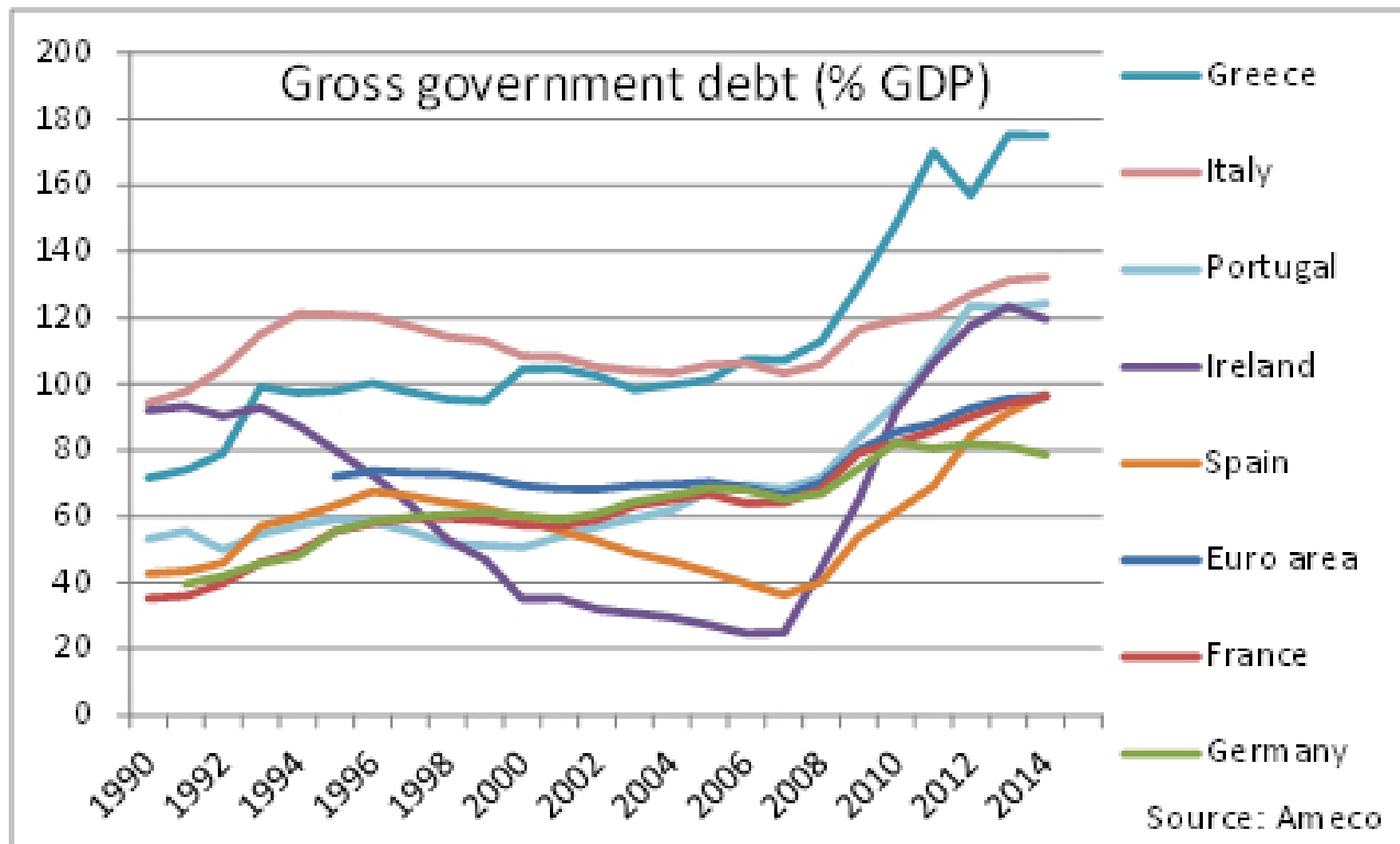
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Supply side

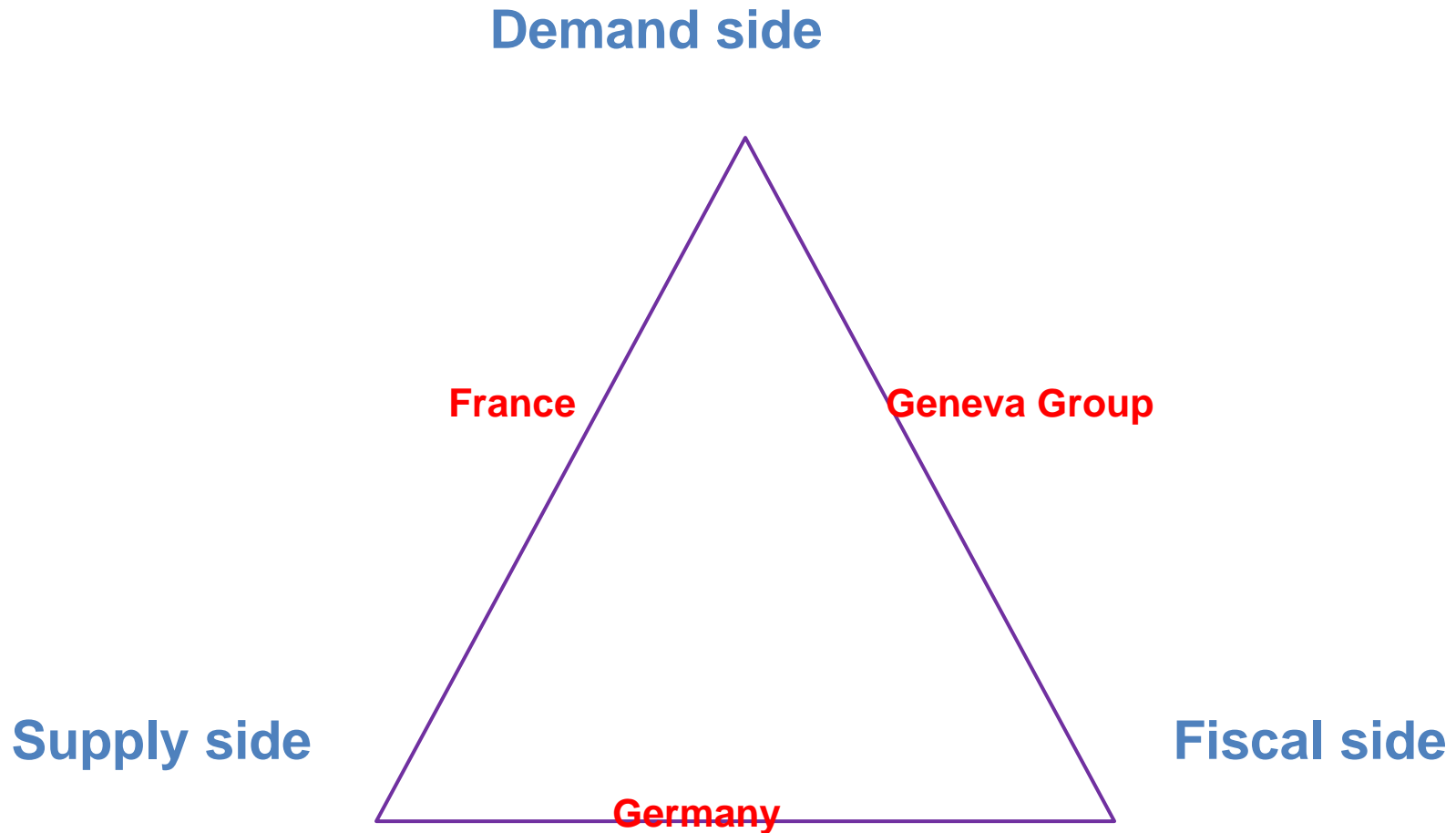
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Fiscal side

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Triangle of our problems



A budget, what for?

1. European public goods :

- ☐ Security, borders management.: not big.

2. Divergence continues: Political cohesion. Permanent transfer

- ☐ « Mezzogiornification »
- ☐ Problem : Keep frontier of Euro area?

3. Demand management: Cyclical transfer scheme

- ☐ Transfers to households with high propensity to consume:
unemployed
- ☐ Juncker plan

4. Reduce the cost of supply side policy necessary to converge again

- ☐ Finance reforms

■ Position 1 : Wait and See

- Implement fiscal discipline
- “Restore” market/fiscal discipline (Bail-in in Italy)
- Let political forces reshape Europe and Euro zone

■ Position 2 : Debt at the European level against fiscal discipline

- European unemployment insurance (1 or 2% of GDP)
- Public investment (Juncker Plan 2.0)
 - Nominal convergence : controlled price and wage dynamics
 - Debt convergence (slow)
- Finance reforms