EUROFRAME 2015: Challenges For Europe 2050

Session 3: Long-term growth patterns

Comments by:
Harald Oberhofer

Austrian Institute of Economic Research (WIFO)
Vienna University of Economics and Business (WU)

Topics

1. **Eurozone trade imbalances and the Dutch current account surplus.**
2. **Common monetary policy and global current account imbalances.**
3. **Optimal regulation of the financial sector.**
4. **Factors and constraints for growth in Europe and the World.**

Causes and policy implications of the Dutch current account surplus

Summary

The paper offers a discussion on the components that explain the persistent and increasing Dutch current account (CA) surplus.

In a nutshell:

- The Dutch economy is highly integrated in the international markets (e.g., via exports and MNEs).
- High total savings both by consumers (pension funds) and firms (MNEs).

Eurozone trade imbalances contributed to the increase in the Dutch CA surplus. $\Rightarrow$ EU-dimension of the CA surplus issue.

The structural factors underlying the Dutch CA surplus do not require any direct policy actions to eventually reduce the surplus.

Causes and policy implications of the Dutch current account surplus

Comments and Questions

The discussion on the underlying structural factors is very convincing.

The implications of the Dutch "Black hole" could be presented in more detail (why are investors taking the risk? opportunity costs?, etc.).

Most of the discussed (but rejected) policy measures would be strong interventions:

- Reduction in saving rates (short- versus long-run perspective?)
- Policy induced wage raises (are their any market imperfections?)
- Favouritism of domestic investments (again opportunity costs?)

The discussion on the role of corporate taxation and public support for private pension financing could be deepened.

The permanent necessity to undervalue the euro endangers Europe's trade relations

Summary

The paper provides a summary on the arguments for loose monetary policy in order to tackle the current crisis.

Based on this the author argues that the Eurozone became the main source of global (current account) imbalances.

Further the paper argues that the ECBs monetary policy will not be able to induce a sustained recovery in the crisis countries but might undermine the relations with the US. $\Rightarrow$

Eurozon members should return to national currencies enabling exchange rate adjustments within currency bands.

The permanent necessity to undervalue the euro endangers Europe's trade relations

Comments and Questions

Isn't that a very short-run perspective for solving current problems?

Why should struggling economies improve in their fundamentals if they could devalue their national currencies? How should the currency bands be designed ⇒

Could 27 national currencies result in currency wars within the EU?

Would small national currencies survive another banking crisis of a similar magnitude?

How does the ECB justify it's current policy actions? Isn't it also about fighting deflation tendencies?

Regulation and the opportunity for a more stable system in a low growth environment

Summary

The paper provides an detailed survey of issues on financial sector regulation and economic growth.

It discusses alternative regularity measures and discusses the evolution of the Basel framework.

The author argues that the policy shifts by e.g., the FED and the ECB was responsible for the permanency of the current crisis. $\Rightarrow$

The paper proposes a broad mix of regulatory measures that should be implemented to safeguard the financial sector from future crises.

Regulation and the opportunity for a more stable system in a low growth environment

Comments and Questions

- The paper is very broad in it's scope making it difficult to identify the main headline of it's contribution.
- Should regulatory measures be designed for specific economic (low growth) environments?
- Should we mix together the banking crisis with the European debt crisis?
- The discussion on the role of regulators is very interesting, but didn't we know that regulation often substitutes one principal-agent problem for another one (think about corporate governance issues)?
- The best practice regulation measures proposed are very general and maybe difficult to implement (e.g., healthy mix of bank and non-bank credit intermediaries).

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