

FUTURE OF MACRO-ECONOMIC AND MONETARY INTEGRATION IN EUROPE

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AGENDA

1. PROBLEMS

2. HYPOTHESIS

3. SOLUTIONS



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PROBLEMS

In my presentation I would like to address two questions:

- 1. What are the basic factors responsible for the euro area crisis?**
- 2. What we can and should do if we want to overcome the current crisis?**



Of course I am aware how complicated and difficult the subject is, but nevertheless I will try to point out some basic facts and draw some basic conclusions



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It is generally believed that the basic reasons of today's problems are:

- **Excessive general government gross debt**
- **Excessive general government deficits**
- **Which combined are causing the problems with financing budget deficits and public debt**



The additional factors are:

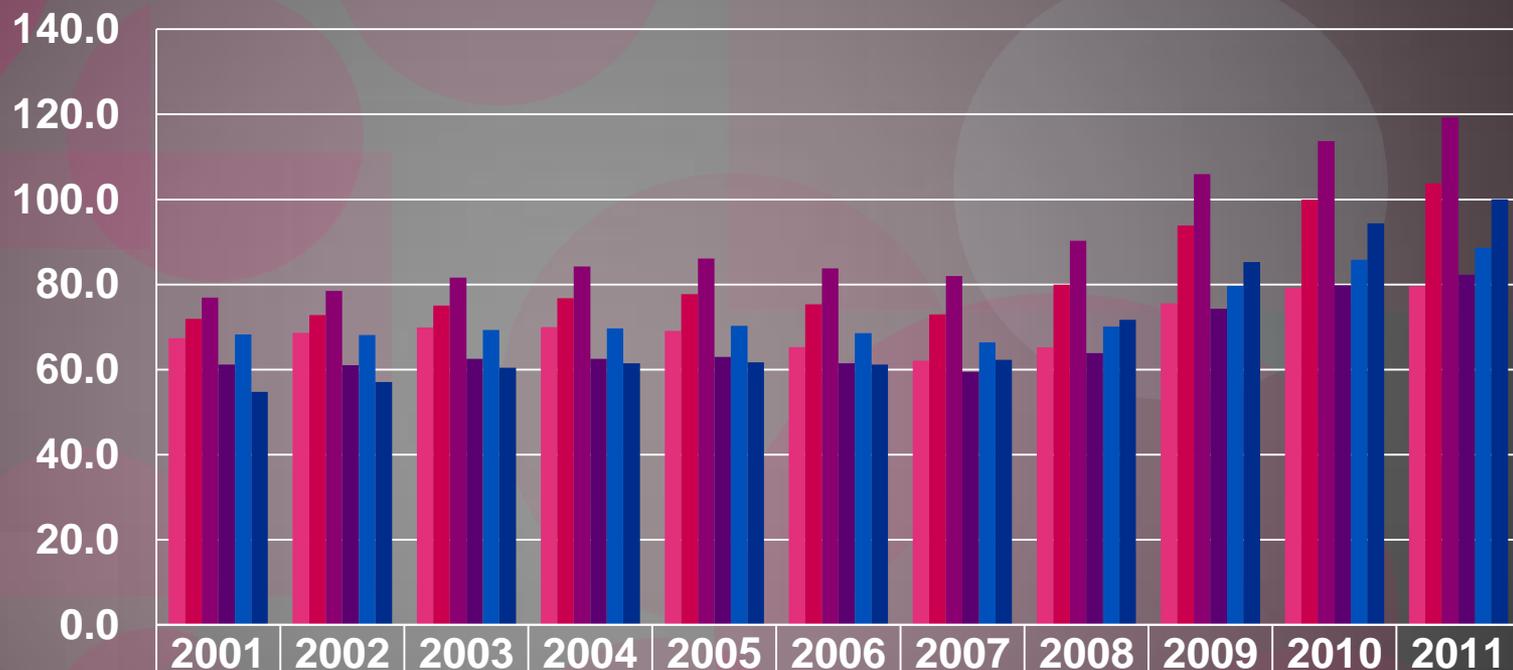
- **Too slow rate of GDP growth of euro area countries**
- **Euro area countries differ with respect to level of development, whereas members of common currency area should be at more or less the same level**



Generally accepting ideas outlined earlier; however let's look what the data shows

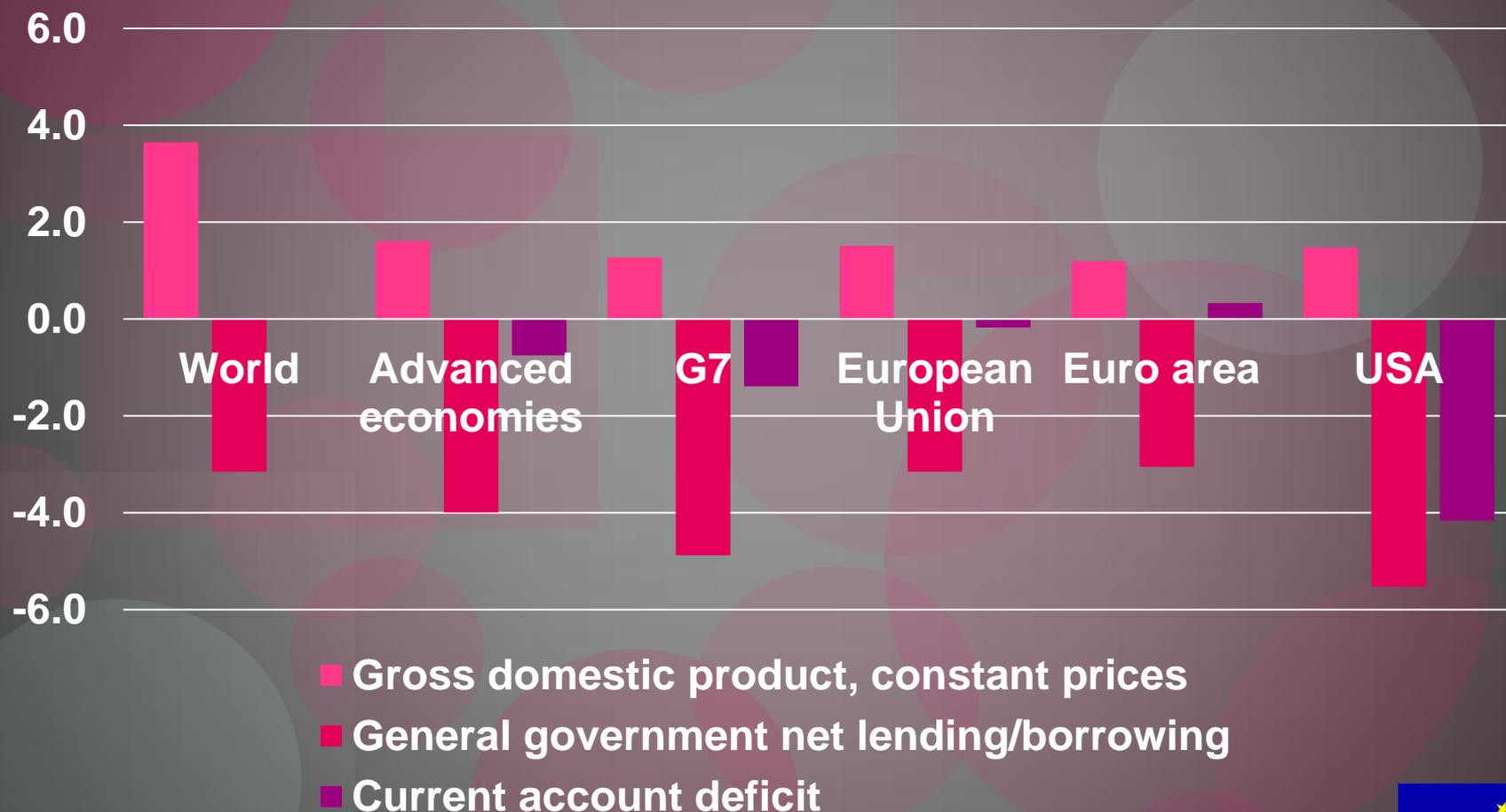


General government gross debt

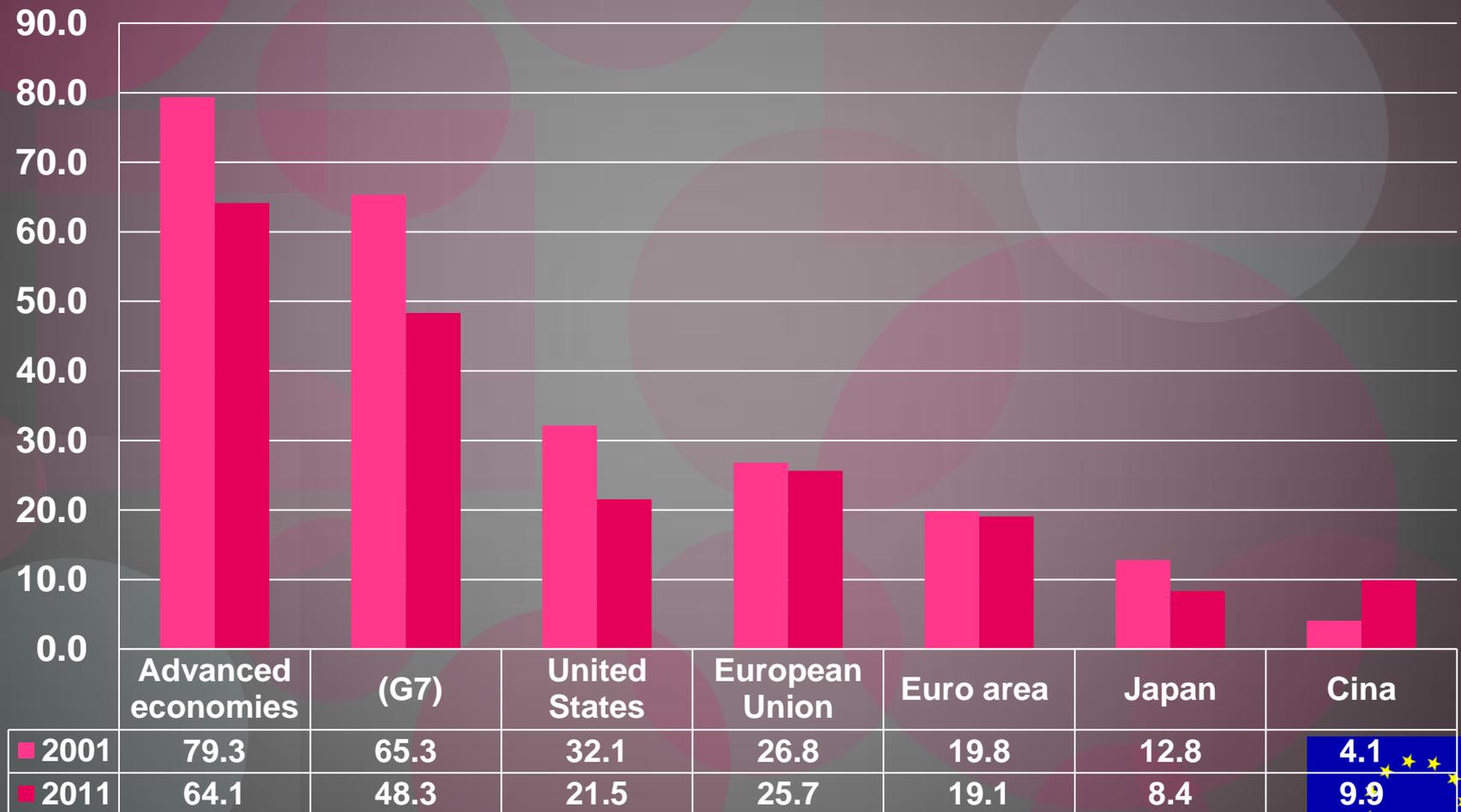


	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World	67.3	68.7	69.9	70.0	69.1	65.3	62.1	65.2	75.6	79.3	79.6
Advanced economies	71.9	72.8	75.0	76.8	77.7	75.4	72.9	79.9	93.9	100.0	103.7
G7	76.9	78.5	81.6	84.2	86.1	83.8	82	90.3	105.9	113.7	119.3
European Union	61.2	61	62.5	62.5	63	61.5	59.5	63.9	74.3	79.8	82.3
Euro area	68.3	68.1	69.3	69.7	70.3	68.6	66.4	70.1	79.7	85.8*	88.6*
USA	54.7	57.1	60.4	61.5	61.7	61.1	62.3	71.7	85.2	94.4*	100.0*

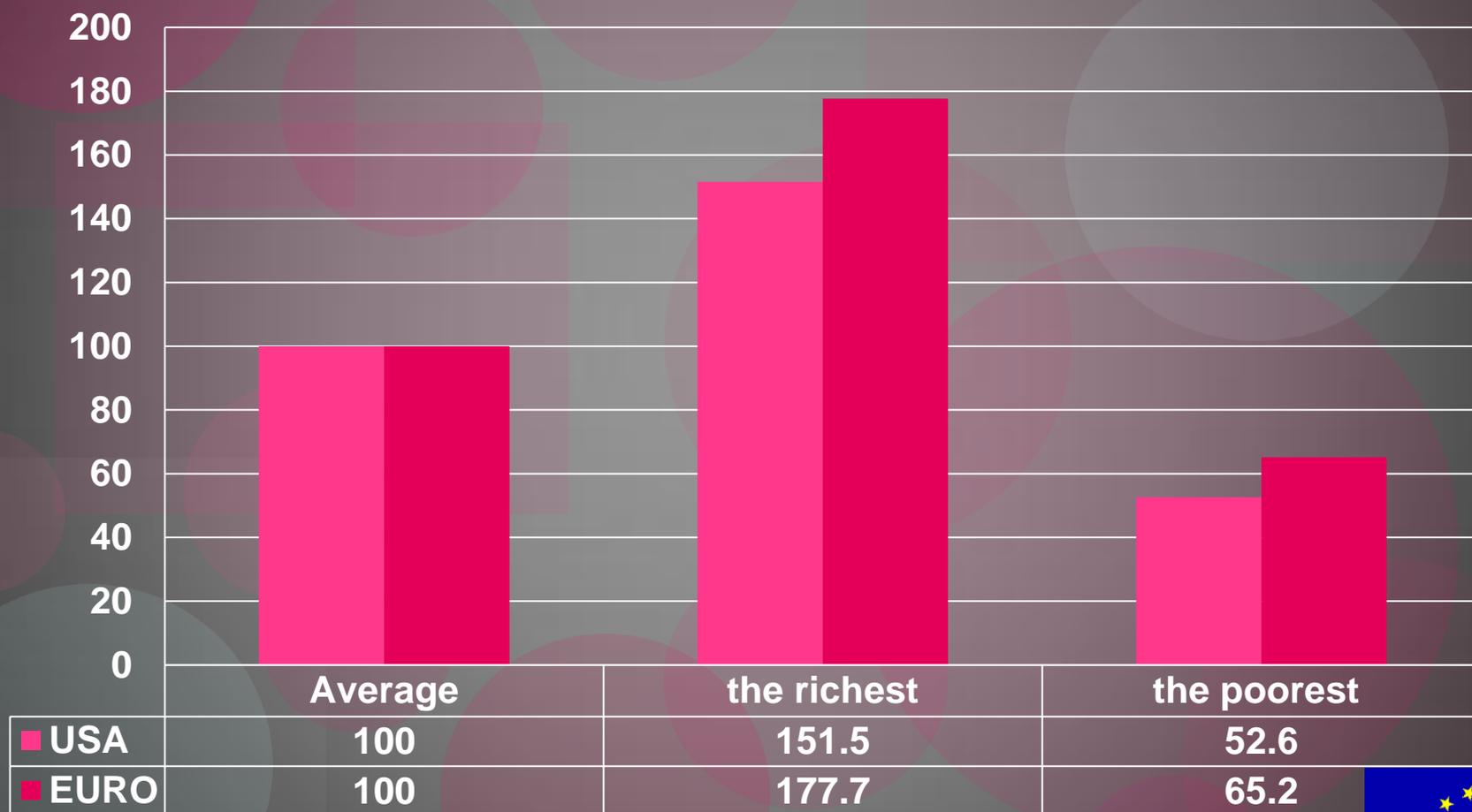
Basic macroeconomic indicators (averages 2001 – 2011)



Contribution of countries and group of countries to world GDP (USD, current prices)



Differences in GDP per capita : Euro zone nad USA



What conclusions can we draw from these data?

- Trying not to underestimate the real economic and financial problems of the euro area and EU it's necessary to stress that macroeconomic indicators for both are not as bad that they could be blamed for the current problems
- The level of deficit and debt of public finance are comparable (some better some worse) with other developed countries
- EU and euro zone are generating enough savings to finance both: public deficits and public debt
- If so, the reasons of troubles must have internal character



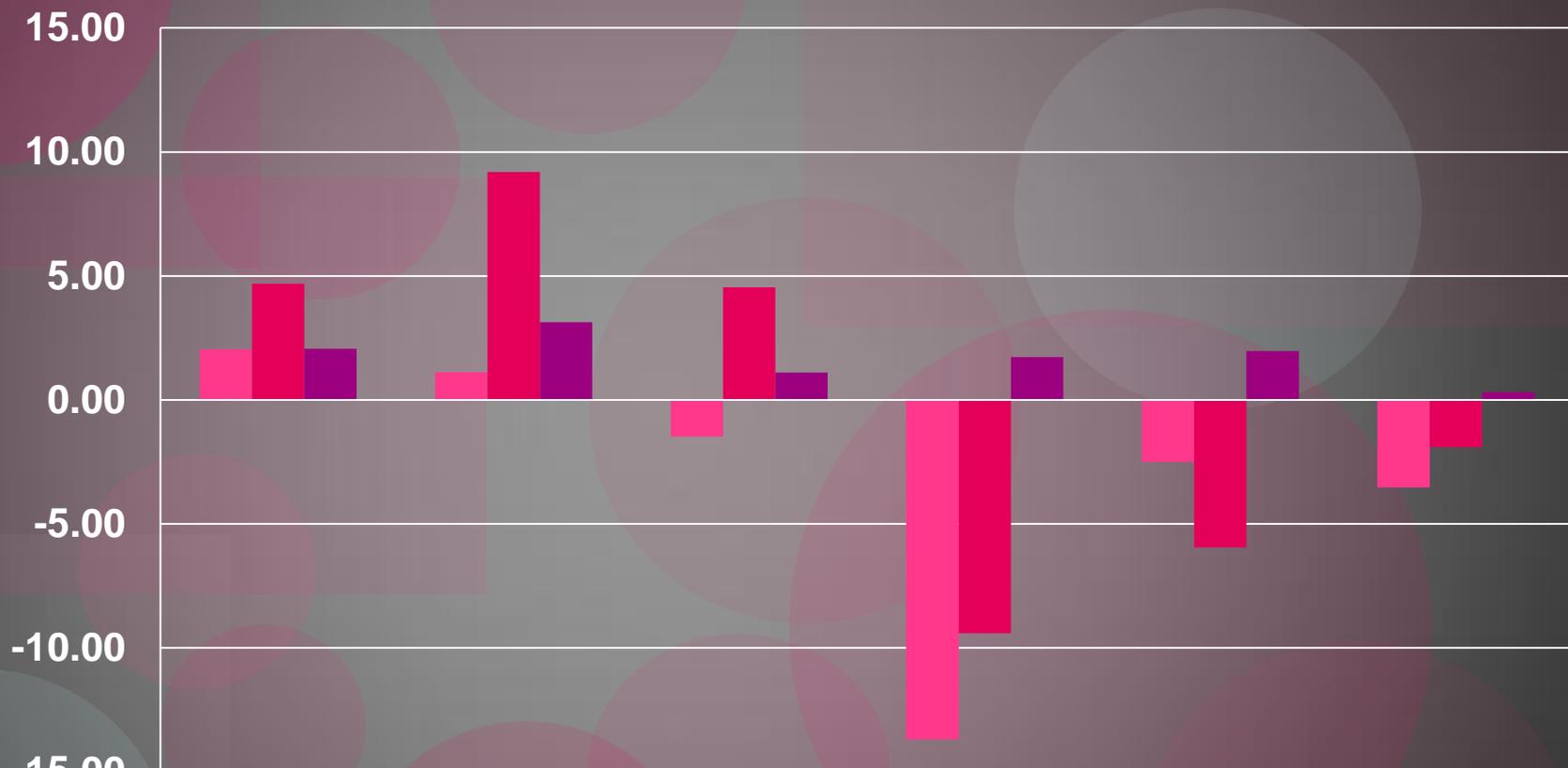
Trying to identify these factors that are responsible for current crisis I would like to stress two problems:

- **Inequalities within the EU and euro area, and I do not have in mind the level of GDP per capita**
- **Inefficient mechanisms of economic coordination within EU and euro area especially**

Let me exemplify the first group of problems with some data



Basic macroeconomic indicators (averages 2001 – 2011)



	Finlandia	Luxembuorg	Germany	Greece	Spain	Italy
■ General government net lending/boporrowing	2.04	1.11	-1.48	-13.69	-2.50	-3.53
■ Current account deficits	4.68	9.19	4.54	-9.41	-5.95	-1.92
■ GDP rate of growth	2.07	3.14	1.10	1.73	1.97	0.31



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- **These data shows that although euro area is balanced as a group of countries there are considerable imbalances within the euro area**
- **These imbalances are results of bad macroeconomic policy; some countries did not obey the rules, mainly relating to public deficit nad debt**
- **If so, it seems to be obvious that those countries should pursue more stringent economic policy, mainly aimed at reducing state budget deficit and public debt**



- **But trying to achieve these goals one should have in mind that too fast fiscal consolidation may contribute to lower rate of growth not only in countries heavily indebted but in an whole euro area**
- **Limiting deficits and debt should be very careful and can be treated as only short or medium term measure**
- **In a long run the only possible solution is fiscal union**
- **It has never been proved that it is possible to conduct efficient macroeconomic policy if fiscal and monetary policy are separated**



- **Although desirable maybe even necessary from the economic point of view fiscal union is difficult from the political point of view**
- **The only solution for today's problems is improvement of macroeconomic equilibrium of most indebted countries**
- **But we should be aware of the possible slow down of the rate of GDP growth which for now is too low for dealing with the debt problem**

