

STRUCTURAL REFORMS IN EMU

National Government perspective

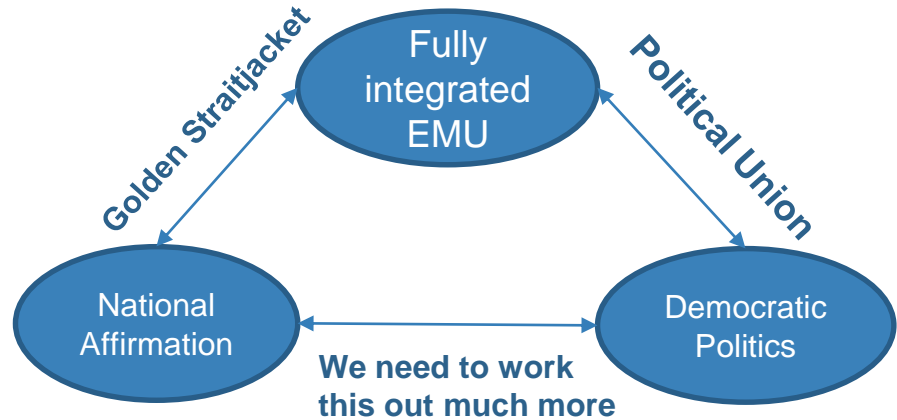
Álvaro Nadal MP Spain

TWO WELL-KNOWN STARTING POINTS

Juncker's curse

“We all know what to do, but we don't know how to get re-elected once we have done it”

Rodrik's trilemma EMU style





POSITIVE APPROACH

There is a conflict between economic theory and practice and political theory and practice

We need to understand better the political side of structural reforms

THREE FUNDAMENTAL POLICY QUESTIONS

What to do?

Easier to answer:
Flexibility of prices
and wages (and other
rents) is the key
Mundellian condition
for OCA

(Many times forgotten)

How to do it?

Very difficult to
answer:

In most cases reforms
have worked out
economically and
backfired politically

When to do it?

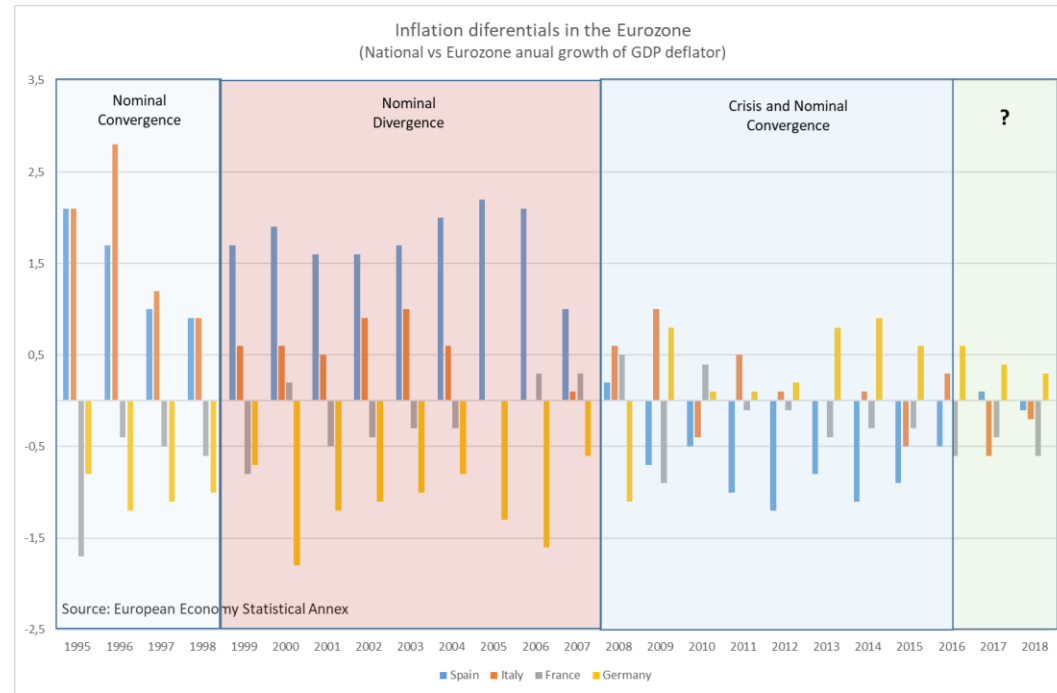
Very difficult as well:

Example of the
Spanish labour
reforms in 1994 and in
2012

WHAT TO DO?

Huge inflation differentials and current account imbalances have been the major source of instability in the EMU.

Why aren't we using the main nominal convergence criteria?



HOW TO DO IT? CURRENT SITUATION (ONLY STICKS)

Straitjacket: Macroeconomic Imbalances Procedure

- Too many indicators (politically introduced)
- No thresholds, somehow arbitrary
- No real implementation

Reform:

- Reputational sanctions work
- Only inflation and current account indicators
- Thresholds and procedure similar to GSP


Growing competences to National Independent Regulators

- Not enough democratic legitimacy and accountability
- Cases of power vacuum
- Also subject to social or lobby pressure
- Do not take into account the complexities of political decision-making

HOW TO DO IT? SOME IDEAS AND CARROTS

- Deeper knowledge of the full process of reform: more positive (vs normative) analysis including economics, public choice, political science and sociology
- More intensive communication and education effort
- Most problems come from income transfers. Instruments for (at least temporary) Kaldor-Hicks compensations are needed: budget (national and EU), taxation, redefinition of state aids...
- Avoid strategic games in National and European Parliament bearing in mind that now Parliaments are much more fractured
- Comprehensive reform plans to avoid the feeling of being the only targeted sector (the only advantage of devaluations)

AND...



**An enormous amount of
wisdom, courage, luck, common
sense, communication skills and
experience.**



THANKS!