



BUSINESS  
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**KIELER  
KONJUNKTUR  
GESPRÄCHE**

# REFORMING THE EUROPEAN UNION: CONFLICTING VIEWS AND COMMON GROUND

15/16 October 2018

Swedish Embassy, Berlin

# Opening Remarks

Stefan Kooths  
*Forecasting Center*



# European integration

The world watches.

# Institution building

Consensus



Institutions

# Scope for integration

Have the EU-ropeans exhausted their common ground  
or have they been searching in the wrong domains?

**Riding a bicycle: If you stop pedaling, you fall over.**



Ceasing integration process = collapse of the EU?  
A reverse gear for the EU bicycle?

Heavy efforts to keep Greece in the EMU  
while letting the UK just leave?

# A remark on Brexit costs

Studie	Optimistisches Szenario		Pessimistisches Szenario		Modell	
	EU27	GB	EU27	GB	Typ	Kanäle
Rojas-Romagos (2016)	-0,6	-3,4	-0,8	-4,1	CGE	Handelsströme; Produktivität
Booth et al (2015)				-2,2	CGE	Handelsströme; FDI
IIMF (2018)			-0,5		CGE	Handelsströme
IMF (2018)	-0,1		-1,5		Gravitationsmodell	kein strukturelles Modell
OECD (2016)			-3,7	-7,7	WEGE	Handelsströme; FDI; Migration; R&D; Management Qualität; Stärke der Regulierung
HM Treasury (2016)		-3,4 bis -4,3		-5,4 bis -9,5	NiGEM und Gravitationsmodell	Handelsströme; FDI; Produktivität
Vandenbussche et al (2017)	-0,4	-1,2	-1,5	-4,5	NQTM	Handelsströme; Lieferketten
Dhingra et al (2017)	-0,1	-1,3	-0,4	-2,7	NQTM	Handelsströme
Aichele, Felbermayr (2015)	-0,1	-0,6	-0,2 bis -0,4	-1,5 bis -3,0	NQTM	Handelsströme
Cambridge Econometrics (2018)		-1,0		-2,7	E3ME	Handelsströme; Produktivität

**UK economy  $\approx$  17 percent of EU-27**

Source: Joint Forecast (Gemeinschaftsdiagnose), Autumn 2018, p. 30.



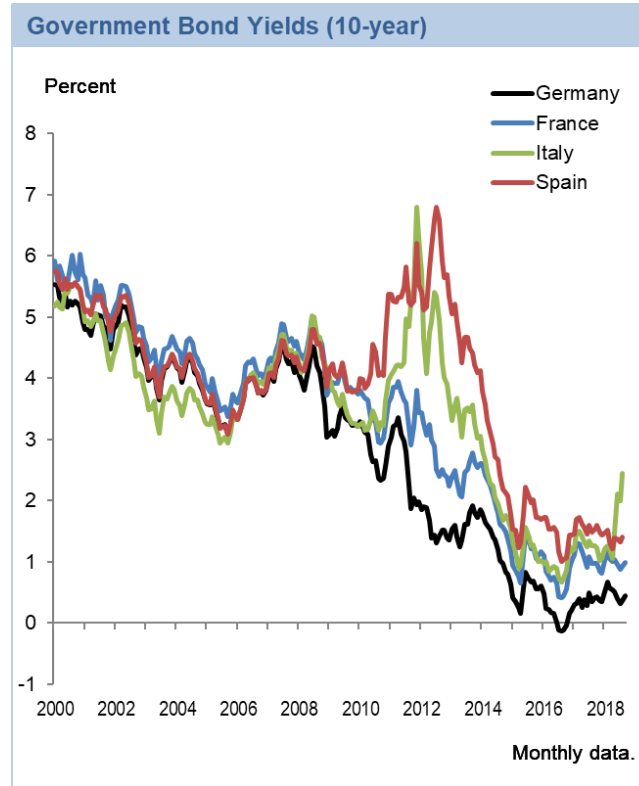
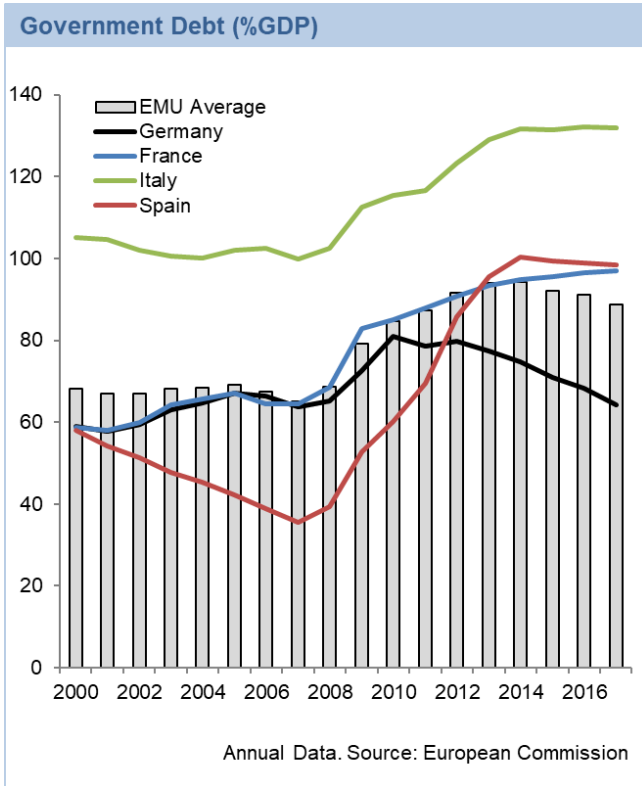
# Five presidents' report (2015): Completing Europe's Economic and Monetary Union



Macro stabilization, risk sharing, and shock absorption  
– what about subsidiarity?

Fiscal capacity  
– what about genuine EMU public goods?

# Fiscal consolidation – enough progress made?



- (Historically) High public debt levels
- (Historically) Low government financing cost

⇒ Legacy of the crisis (I)

“Only when the tide goes out  
do you discover who has been swimming naked.”

Today:

167,000,000,000,000 USD  
(250 percent of GDP)

10 years ago:

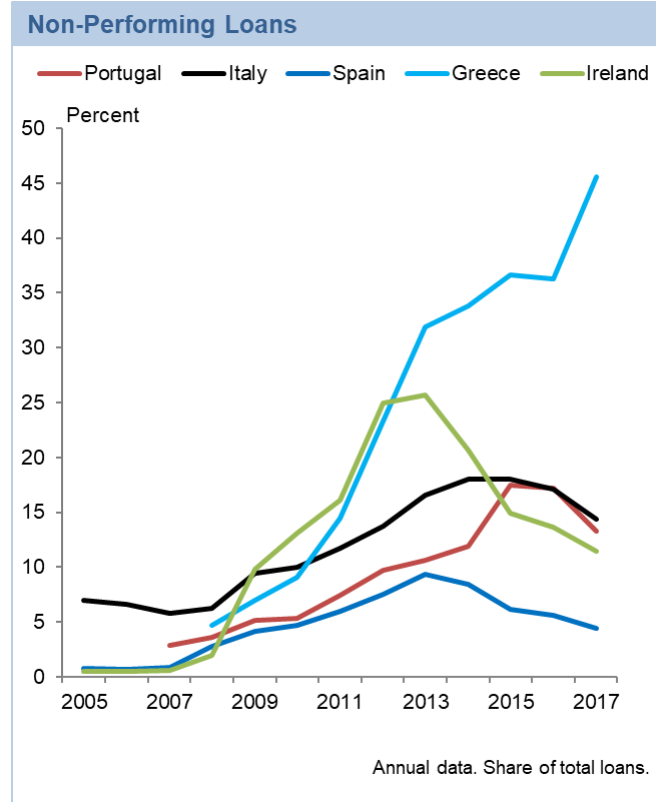
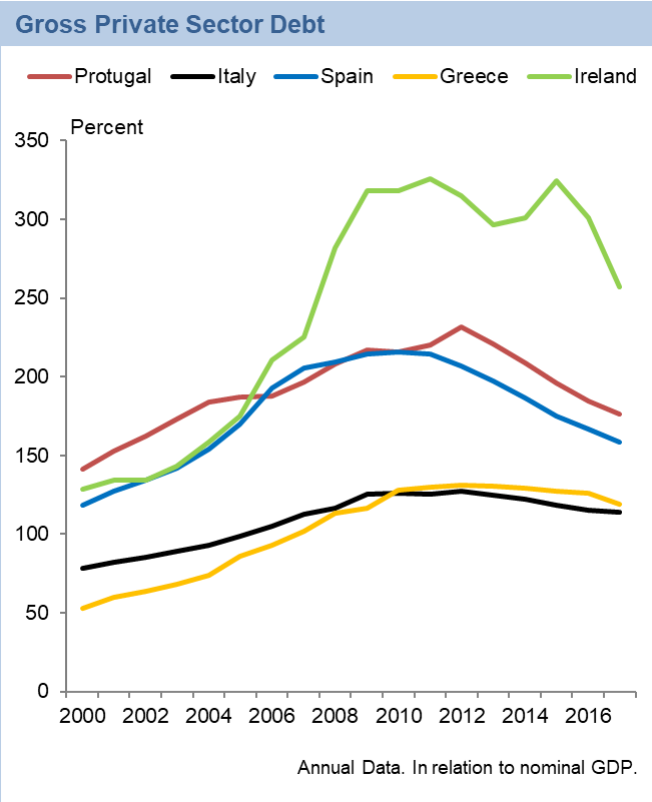
113,000,000,000,000 USD  
(210 percent of GDP)

Consensus: Too big for a “Greek” solution  
The Euro at the crossroads?

# Fiscal rules and structural reforms

Ownership matters.

# Flipside of not liquidating



⇒ Legacy of the crisis (II)

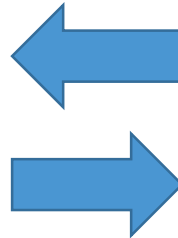
National segmentation of banking markets  
– unified deposit insurance or transnational competition?

Bank-sovereign-nexus  
– what about the public debtor privilege?



# The legacy-restart-nexus

**Restart**  
(new framework)  
requires  
**resolution of legacy problems**



**Resolution of legacy problems**  
(debt overhang)  
requires  
**consensus** on new framework

The EU's global role:  
Power politics or institutional pioneer?

Re-integrated EU-28+X  
or institutional competition in integration policies  
(with UK as nucleus for EFTA 2.0)?

# Clash of social philosophies?

## ■ Maastricht 2.0

- » Rules
  - » No bail-out
  - » Fiscal discipline via capital markets
  - » Decentral macro stabilization by solvent member states
  - » No monetary government financing, hard currency
- ⇒ **Diversity, competition**

*Evolutionary rationalism  
(Hume/Smith/Kant/Popper)*

## ■ Fiscal union

- » Discretion
  - » Mutualized debt
  - » Conditionality of fiscal support
  - » Macro stabilization on EMU level
  - » Monetary government financing, soft currency
- ⇒ **Harmonization, deepening**

*Rationalistic constructivism  
(Descartes/Hobbes/Rousseau/Comte)*

# Foundations matter



# Conference schedule

## MONDAY, 15 OCTOBER 2018

- 14:00 to 14:30     **Welcoming addresses and introduction**  
Per Thöresson, Swedish Ambassador to Germany  
Stefan Kooths, Head of Forecasting Center, Kiel Institute for the World Economy
- 14:30 to 15:15     **Keynote: A renewed strategy for the Euro area**  
Agnès Bénassy-Quéré, Paris School of Economics
- 15:15 to 16:00     **Keynote: Reforming the European Union:  
More, less, or a better Europe?**  
Jürgen Stark, Former ECB Chief Economist and Executive Board Member, Frankfurt
- 16:00 to 16:30     **Panel discussion / Plenary debate**
- Coffee break
- 17:00 to 17:30     **Global economic outlook**  
Klaus-Jürgen Gern, Forecasting Center, Kiel Institute for the World Economy
- 17:30 to 18:15     **Trade war impact on China's economy**  
Max J. Zenglein, Chief Economist, Mercator Institute for China Studies, Berlin
- 18:15 to 19:00     **United States: Economic outlook**  
Adolfo Laurenti, Chief Economist VISA, London
- 19:00 to 20:45     Dinner buffet

# Conference schedule

## TUESDAY, 16 OCTOBER 2018

- 09:00 to 09:30     **Euro area: Economic outlook**  
Ulrich Stolzenburg, Forecasting Center, Kiel Institute for the World Economy
- 09:30 to 10:15     **United Kingdom: Economic outlook**  
Garry Young, Director of Macroeconomic Forecasting, National Institute of Economic and Social Research, London
- 10:15 to 11:00     **France economic outlook: National realities, European dream**  
Charles-Henri Colombier, Director of Macroeconomic Analysis, Coe-Rexecode, Paris
- Coffee break
- 11:30 to 12:15     **Economic outlook for Germany**  
Nils Jannsen, Forecasting Center, Kiel Institute for the World Economy
- 12:15 to 13:00     **Keynote: The Changing Fortunes of Economic Integration**  
Fredrik Erixon, Director, European Centre for International Political Economy (ECIPE), Brussels
- 13:00 to 14:00     Lunch buffet



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Many thanks to



EMBASSY OF SWEDEN

**IWS**

Internationaler  
Wirtschaftssenat  
world economic council

**VATTENFALL** 



# Enjoy the 98<sup>th</sup> KKG



**Prof. Dr. Stefan Kooths**

*Head of Forecasting Center*

T +49 431 8814-579

F +49 431 8814-525

M stefan.kooths@ifw-kiel.de

  @kielinstitute

[www.ifw-kiel.de](http://www.ifw-kiel.de)

