



CHIEF ECONOMIST'S COMMENT

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Europeanise the right policy areas

The fear of collapse in Europe somewhat receded in the wake of the election of the new French President, Emmanuel Macron. Now, the new narrative dictates that Germany must “give something” so that, in five years’ time, extremists on the right and left are not able to threaten unity in Europe yet again.

Further European integration is unquestionably the right approach. But what shape should this take? A fiscal union is frequently cited as the ostensible solution to the problems in the European single currency. But this will not solve the excessive budget deficits and lack of competitiveness in many countries. In a single currency, the exchange rate is not available as an economic policy instrument. Consequently, wages, productivity and budgetary discipline are the principal ways in which to make adjustments. This demands the infamous structural reforms that so many countries eschew. During the election campaign in France, Macron raised the issue of a more flexible labour market. However, he also urged further integration of the euro area and suggested that stimulus packages, which are currently high up on the agenda, should be paid for through the EU budget. But how are they supposed to be financed and distributed? Not to mention the fact that, of all countries, Germany – the country with the highest economic growth – is particularly weak in respect of publicly-financed gross fixed capital formation. As a proportion of gross domestic product, in 2015 this amounted to a rate of 3.5 % in France, which was significantly higher than the 2.1 % recorded in Germany. So the additional funds should really end up in Germany.

In my opinion, however, this would not be the right way towards further integration, because a communitarisation in this area would contradict the fundamental basis of Europe, namely of diversity and subsidiarity. In addition, it would weaken instead of strengthen both competition between countries and the willingness for them to take individual responsibility for their actions. This would be tantamount to officially jettisoning the most important element of the single currency – adherence to the “no bail-out” clause. A transfer union would finally have been completed.

Germany and France, though, now have the chance to push ahead with political union. This could be achieved in areas where there is no benefit in diversity. Therefore, the next step in European integration should be in centralising foreign and defence policy, the fight against terrorism as well as in asylum and climate policy - not in fiscal or social policy. A renewed allocation of EU funds in these areas would send out a powerful signal for the future of Europe. ■

AUTHOR
Dr. Gertrud R. Traud
Chief Economist/
Head of Research
Tel: +49 69/91 32-20 24
research@helaba.de

EDITOR
Markus Reinwand, CFA

PUBLISHER
Helaba
Landesbank
Hessen-Thüringen
MAIN TOWER
Neue Mainzer Str. 52-58
60311 Frankfurt am Main
Tel: +49 69/91 32-20 24
Fax: +49 69/91 32-22 44

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