European Stability Mechanism

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Stable and equitable growth in the euro area
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Ladies and gentlemen,

The title of this panel reflects a lingering uncertainty about the state of the European economy. Many commentators and journalists continue to say that Europe is heading for an uncertain future. As human beings we are inclined to focus on the downside risks. That is our protective instinct. And now many also paint a rather bleak picture about the future of Europe. Apparently, the nervousness about elections in the Netherlands, France, and Germany is so high, that people tend to forget some fundamental economic data. Over the past crisis years, there have been many "Cassandras" predicting the end of the euro area and Europe. Contrary to the tragic figure in Greek mythology, they have proven wrong time and again. Let me give you some arguments of why I think we shouldn't sell Europe short at this stage.

Europe has staged a robust recovery over the past years, after coming out of the worst financial crisis since World War II. Euro area growth is expected to have increased to 1.7% last year and to 1.6% in 2017. That is above the potential growth rate and bodes well for future job creation. It is true that growth rates are lower than they were before the crisis, when we had years of 3% growth. But the crisis has shown that such elevated growth rates were probably unsustainable and fed by bubbles and imbalances in some countries. And let's not forget that euro area growth last year was actually slightly above that of the U.S. From a per capita perspective economic growth in the euro area is now back in line again with the US, just like it was before the crisis. On that account, the recovery we have seen has been more robust, and in line with our growth potential. In short, the recovery from the crisis took its time, but there is no need to speculate about a lost decade.

Another point is that growth has been far more equitable in Europe than in the US. It is not a straightforward exercise to get the data, but what there is clearly points to the fact that all income brackets in Europe have participated in the growth that the economy has generated over the past decade. In the US, the poor have benefited much less and more has gone to the top income brackets. Another measure is the multiple of the salary of CEOs of large companies, compared to that of the average employee. In Europe, the ratio typically is around 100 times – which is already much higher than most people think. But in America, the ratio is a full 350 times. Needless to say, such disparities feed into a sense that globalisation has failed to fulfil its promise of greater wealth, and are an important driver of the rise of populism.

Now a critic might say all of this is not enough. Many are worried what will happen to the economy – and to the banks – once monetary policy starts to tighten. But let me underscore that the euro area is now much more robust institutionally than before the crisis, and better able to deal with any difficult situation.

Europe's strong growth performance – as well as the unwinding of macroeconomic imbalances – is a direct consequence of the swift policy response taken during the crisis. Europe now has better economic policy coordination and a far more effective system of bank supervision, which means that the responsibility for overseeing the largest banks is no longer in national hands. Banks have become better capitalised and we have a path towards resolution that avoids vicious cycles between banks and sovereigns. The ESM is a lender of last resort for sovereigns, a function that did not exist in the euro area before the crisis.

Of course, European countries still need to do more homework. More is needed to increase the growth potential. Governments should address non-performing loans, which are too high in some countries. There is no need to think that another banking crisis is looming: roughly half of bad loans have been provisioned, and the overall level has started to come down. But these bad loans are still a drag on bank profitability, and eat up cash that should be used to lend and promote investment.

Countries should also overcome high structural unemployment and increase productivity and competitiveness. Former ESM programme countries show that the benefits of reforms can kick in quickly. Spain and Ireland, for instance, now have the highest growth rates in Europe. This bodes well for the future of Greece. Of all the five programme countries, Athens had to catch up the most to modernise its economy. This initially brings hardship to the population. But then things will take a turn for the better, and the reward will be new jobs and more prosperity.

Moving from the country to the cross-border level, I see the need for a few more pragmatic steps, which can be easily explained to citizens. The Commission in its recent White Paper also adopts a differentiated approach to European integration. We need to complete Banking Union by setting up a European deposit insurance scheme, and a backstop for the Single Resolution Fund. Work towards a Capital Markets Union should also be a priority. These are steps we need to defend the clear benefits that cross-border cooperation has brought in the past 60 years. The EU and the single currency area are the best platform for stable and continued growth for the continent.

What we don't need is a full Fiscal Union, let alone a Political Union. But we also don't want to row back on what has been achieved.

Populists calling for an exit of the euro, or the transformation into a fixed-exchange regime, are short-sighted. History from before the euro existed clearly shows that this has led to financial instability. In a world where others are becoming more protectionist, the ability to reap the benefits of a common trade area becomes even more important. Generally, each billion euros of EU exports supports 14,000 jobs across the EU.[1]

And the economy isn't the only area where cross-border cooperation pays off. All the major challenges that Europe is facing go beyond just one country. Countries can only solve issues such as security, immigration and climate change if they work together. The EU offers the best platform for that. Populists may tell you we need to close the borders. But the facts show otherwise. The truth is, protectionism simply isn't a solution.

[1] European Commission (2015) EU exports to the world: Effects on employment and Income. Key findings. European Commission (http://trade.ec.europa.eu/doclib/docs/2015/june/tradoc_153502.pdf)