Benoît Cœuré: Stronger together – the Greek turnaround and European integration

Opinion piece by Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, published in "TA NEA", 30 August 2014.

*   *   *

The strength of our European *polis* has been deeply challenged by the crisis. Fragilities resulting from many years of unsustainable national policies and an incomplete governance structure have become evident, fuelling uncertainty, sometimes financial panic, and ultimately high adjustment burden and social hardship. The euro has delivered huge economic benefits since its introduction, but there has been a false sense that it could come as a free lunch for participating countries, creating rights but no obligations. We have seen how excessive imbalances and inefficient structures in individual countries can destabilise the whole monetary union as a result of the close interdependence of our economies.

The key challenge in recent years has been to address these fragilities and contagion effects both at the national and European levels. A lot has been achieved since mid-2010, particularly in programme countries where painstaking efforts are now being rewarded and economies are gradually recovering. Let me mention a few telling figures. In Greece the current account balance improved from –14.9% of GDP in 2008 to +0.7% in 2013; the primary public balance (that is the public balance excluding interest) is expected to move from a deficit of 10.5% of GDP in 2009 to a primary surplus in 2014. On the ease of starting a business, recent reforms helped Greece jump from 147th place in the 2013 edition of the World Bank's Doing Business ranking to 36th in 2014, i.e. 6th among EU countries and well ahead of Finland, Germany and Austria. Greece stands as an example that there is no fatality, that past economic policy mistakes can be repaired and that national reforms combined with European solidarity are able to turn the economy around.

However, we clearly cannot yet claim that we are done: investment remains weak, unemployment is unacceptably high and too many Greeks are at risk of poverty. While the financial crisis is behind us, the euro area still faces a major shortfall in both growth and employment. Europeans have a shared responsibility in responding to these challenges. By combining national and European efforts, Greece and other programme countries are being brought back on a path of sustainable and shared prosperity. At national level, we still need substantial reforms of our economic and financial structures in most euro area countries, including Greece, to close the gap to best practices.

This is not to please Brussels, Frankfurt or Washington; this is in the very interest of consumers, workers, businesses and social fairness. And it is also true for the large euro area economies. A recent study by the OECD estimated that removing restrictions to competition in key sectors of the Greek economy would bring a net gain of around EUR 5 billion. Structural and governance reforms can also contribute to a fairer society – for instance by fighting tax evasion, rent-seeking, unfair privileges and corruption – and increase the transparency and accountability of policy-making. Moreover, the continuation of the current, very favourable financial environment is predicated on the expectation that these reforms will be taken forward. In Greece, as in other euro area countries, such reforms are in the interests of the people and they are in the hands of the government and the parliament.

At the same time, national efforts are being supported by initiatives at the European level. In recent years, Europe has shown substantial solidarity with Greece and other programme countries, providing the necessary time for rebalancing measures and structural reforms to be discussed and implemented. European policies, including the measures taken by the ECB within its price stability mandate, have provided a stabilising anchor by guaranteeing the integrity of the euro area and by contributing to macroeconomic stability. The recent monetary policy decisions of the ECB have been successful in ensuring a very accommodative monetary stance in the euro area and in decoupling it from the other main economic areas. We will provide additional liquidity to banks on the condition that they increase credit to the real economy, and we stand ready to adjust our policy stance further as needed. EU cohesion policy and the European Investment Bank also support the economic recovery, provided that administrative efficiency at the national level is strong enough to allow for the absorption of available funds for the most productive uses.

The key challenge in the years to come will be to avoid fragility from building up again in the euro area, based on the lessons learnt in Greece and other euro area countries. By investing in Europe, we will empower ourselves and give the best chances to European workers and companies in the global competition; by enhancing local performance, we will strengthen the European value chain and Europe's cohesion. These are two sides of the same coin. Let us think of further instruments to reap the most synergies between national and European efforts. Ensuring that individual Member States are converging towards best practices is of common concern. A new convergence process would allow more European citizens to benefit from highly efficient economies and could provide the basis for a sustainable catching-up of both employment levels and, over the medium term, income levels in countries which are currently lagging behind. Once sufficient convergence has been achieved, the conditions would be met for further risk-sharing at the euro area level, for instance by building a common fiscal capacity with appropriate democratic accountability.

As we pursue the objective of stronger economies in a stronger union, there is no such thing as a steady state, but a need for continuous improvement towards our common goal: the stability and cohesion of our continent. To this end, the rights and obligations among the Member States which share a single currency have to progress to reflect our increased interdependence, face new challenges and conquer new frontiers. In the words of Heraclitus, "change is the only constant".