



**conseil d'analyse
économique**

Reforming economic policy and policy-making

Agnès Bénassy-Quéré

Seminar on Structural reforms in the euro area, ECB, Frankfurt, 18 October 2017

The French reform programme

Labor market

- Labor code
- Unemployment insurance
- Continuous education and professional training

Tax reform

- Tax cuts
- Spending cuts

Pension reform

- Merging 35 pension schemes, notional accounts

Other

- Goods and services (e.g. protected professions)
- Education: primary and tertiary

Risks related to the reform programme

Unemployment

- More flexibility → more hirings, but also more separations
- First constraint to hirings: skills
- **Key factor keep momentum:** growth in 2018

Social partners

- Unemployment insurance is currently handled by the social partners
- Part of their funding comes from a percentage on continuous education
- **Key factor for success:** redefining their role and their funding

Tax reform

- Market reaction (incidence)
- A reform for the rich?
- **Key factor for success:** growth, progress with tax coop. within the EU

Provisional lessons

Public opinion is partly endogenous

- Talented politicians can have some impact
- Same for EU policies
- Small steps may help

Windows of opportunity should not be spared

- E.g. apprenticeship in France
- Prioritization of country-specific recommendations? (leaning with the wind)

A balance between internal and European reforms

- With no change at EU/€ area level Macron may fail
- More competition between firms/workers, less between Member states?

The debate on fiscal stabilization at € level

5

1. Symmetric shocks

- In normal times: ECB.
- In exceptional times: need for an aggregate fiscal stance
- € area budget = substitute for failing coordination
- Rainy-day fund or borrowing capacity? Efficiency-credibility trade-off

2. Idiosyncratic shocks

- In normal times: national budgets
- During crises: ESM (conditional lending)
- Liquidity crises or other forms of constraints (SGP)
 - Precautionary credit lines from the ESM? 0% interest lending?
- Mutual insurance as a backing of market integration
 - Capital market
 - Labour market
- Solidarity at EU level
 - Catastrophic event (e.g. a hurricane)

The debate on fiscal stabilization at € level (ctd)

6

3. The size question

- US unemployment reinsurance
 - cost $\approx 0.05\%$ of GDP /year;
 - transfers $\approx 0.5\%$ of GDP in 2009.
- If concentrated on big shocks, stabilization is less costly than allocation
- Should the € area budget disregard allocation?
 - Normally yes (EU budget)
 - But growth is a systemic issue in a monetary union

Non-fiscal, non-structural policy

7

Loose coordination

- MIP: even less successful than SGP
- Initial purpose: avoid a Spanish-style crisis
- Today: complex procedure within the European semester; mixes up policies “at the margin” (e.g. min. wage) and structural policies (e.g. education)

Refocusing the MIP

- Survival kit in a monetary union: nominal divergence, private leverage, housing bubbles.
- Instruments: “at the margin” (incl. macropru)
- Consistency, e.g. France/Germany, to avoid deflationary bias