

The EU needs deep structural reforms and public investment

Let me start by thanking the Italian presidency and in particular the

prepared to deal with the challenges and therefore slow to react to some developments.

Many deep structural policy changes are needed at the national level and mechanisms to foster such reforms remain weak. Let me add that I fully agree with Jean Pisani-Ferry in that we have a lot of catching-up growth to do. In fact, we know that our education system is not everywhere up to the task of giving the skills for the 21



For this second problem, EUI can provide a small and temporary relief depending on its design. The financial support of perhaps 1% of GDP would allow the national government to run smaller deficits and thereby reduce financial risk or allow additional fiscal stimulus to reduce the impact of the shock.

Turning next to the issue of the labour markets, the introduction of EUI represents an opportunity but also a challenge. At the core of the issue is the question of how much labour market institutions need to converge in order to make EUI function properly. This is a multidimensional issue involving questions of the design of the insurance, the desired ability of the scheme to provide fiscal stabilisation as well as the acceptability of moral hazard at the level of the individual and among countries.

As is the case with any insurance, the effect of the insurance on incentives of policy makers and individuals needs to be taken seriously. As some of the costs of unemployment would be borne by contributors outside of the country, incentives for national policy makers to address the variety of causes of unemployment are somewhat reduced. An important trade-off emerges: measures to reduce moral hazard such as limiting the replacement rate reduce the stabilisation properties of the scheme.

But such differences in the way labour markets operate are also one of

into question the appropriateness of the fiscal stance in the Euro area. The problem is that even if the share of public investment is small compared to total investment, studies and anecdotal evidence suggest that it could be one of the factors behind the private investment slump. Companies' investment decisions are affected by the quality of infrastructure in transport or energy. Overall, the public investment gap is substantial. This gap should be closed by a pan-European public investment plan. It would influence the area-wide fiscal stance and push some of the burden of addressing the situation away from the ECB. Given the low current interest rates, it would be worthwhile to develop useful projects as soon as possible. We should achieve an increase of at least 1% in 3 years from public and private sources.

Beyond a European investment plan, I believe we should reduce taxes on low-income households in countries that have the fiscal space to afford this. It seems to me that my home country would have the fiscal space to do so. I would also want to emphasize the importance of reducing regulatory fragmentation and regulatory burdens that weigh on growth and private investment.

Overall, the euro area still needs a deal that on the one hand achieves substantial structural reforms while on the other hand it triggers substantial pan-European investments and easy monetary policy. Such measures need to be implemented quickly to concretely improve the economic situation and create employment. A European Unemployment insurance could be a long-term reform agenda that will help to foster the right labour market reforms for monetary union while achieving better risk sharing.

Thank you very much.