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Europe's «Announcement Syndrome»

By Alessandro Leipold

Italy's Renzi government is often charged of being afflicted with an "announcement syndrome" – i.e., announcing, rather than enacting reforms (spurring even an Italian neologism – "annuncite"). The critique is not unwarranted, but prompts a spontaneous retort: "Look who's talking." Indeed, if there is one player on the European stage who suffers acutely from the malady, it is Europe itself. The latest example is provided by the acclaimed "breakthroughs" in Milan this past week-end.

This is not to say that the informal ministerial meeting did not record some progress, thanks largely to its skillful handling by Italy's Minister Pier Carlo Padoan. One such step forward was the shared recognition (belated as it was) that Europe suffers from a lack of demand, and not only supply constraints. It follows that structural reforms alone are not enough, and that a revival of investment is also needed. The major novelty here seemed to be Germany's recognition of its own role. "We need more investment in Europe," acknowledged minister Wolfgang Schäuble, adding, "Also in Germany."

The attention paid to the coordination of structural reforms was also relatively new, with the reduction of the tax burden on labour being identified as "a clear policy priority." This was a good choice and the right starting point, centered on a reform that stands to significantly improve growth prospects. The method used to single it out was also positive: for the first time, the annual country-specific recommendations addressed by the European Council to each member state were used in a concrete and practical way. A reading of the recommendations indicated that a reduction of the tax wedge was advised for 11 euro area countries (including all the major ones). It is therefore rational to adopt it as a collective priority.

So far, so good. But then the habitual European chasm between declarations and action opens up. The ministers failed to launch, as would have been appropriate, a joint and common tax reduction initiative, with a far stronger impact than individual, dispersed national steps. Instead of agreeing on a concrete and timely action plan, they limited themselves to proclaiming a set of "common principles." Furthermore, on the critical issue of the financing of the reforms, the principles hark back to the "limited fiscal space" argument, and thus insist that the reform's costs "be duly compensated" by spending cuts or shifts to other taxes, "with a view to respecting fiscal targets in line with the Stability and Growth Pact."

Whatever happened to "making the best use of the flexibility that is built into the existing rules," as advocated by the European Council in June? The existing rules in fact allow deviations from the pre-set adjustment path precisely to cover the costs of structural reforms that are seen as "raising potential sustainable growth." The Eurogroup ministers seemed to have no doubt about the reform's payoff, noting that "reducing the tax burden on labour has the potential to support consumption, stimulate labour supply and employment, as well as improve cost competitiveness and firms' profitability... contributing to the smooth functioning of EMU." Yet, even such an exemplary case was not seen as warranting recourse to the SGP's "structural reforms" flexibility clause. The insistence on compensatory measures emasculates any short-term stimulus from the measure. More importantly, for some countries (most notably Italy), it means utterly clipping its wings, shrinking its scope to something quite insignificant, as indeed has been the case so far. One has to wonder: if not now, and for such a declared "policy priority," when will the Pact's flexibility for structural reforms ever be applied? Doubts also arise with respect to the other proclaimed breakthrough in Milan, the announced relaunch of investment spending. Germany's readiness to raise its own investment had in fact been repudiated by Minister Schäuble himself a few days before the Milan meetings, when he informed the Bundestag of the early achievement of the country's public finance objectives, and indicated a firm intent to stay the course, posting a budget surplus as a lasting target. This despite estimates by state-owned KfW bank indicating that Germany could invest 150 billion euro more without violating its own fiscal rules.

There is of course the EU-wide initiative, president-elect Juncker's investment package of 300 billion euro. After many "investment" summits and an uninterrupted series of initiatives (2020 Horizon and many others), the ministers seemed however to require yet another study, mandating the European Commission and the European Investment Bank (EIB) to submit a report on "practical measures for profitable investment projects." The EIB's President quickly cautioned against "exuberant expectations" about the Bank's potential role. The latter has indeed regularly dodged similar calls to action in fear of damaging its venerable triple-A rating. Ministers are to return to these matters in October; in the meantime, Europe languishes. One must hope that at least in this area the scope for flexibility under the SGP will be used, by applying the "investment clause" and excluding all national co-funding of EU-supported investments from the fiscal indicators used under the Pact.

Just as Europe calls on the Renzi government to be concrete in its reform efforts, so too does Europe have an obligation to back up its words with tangible action. One would otherwise have to conclude that the "announcement syndrome" is a case of trouble shared. But hardly of trouble halved.

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