I am pleased to welcome you to this year’s Conference on European Economic Integration (CEEI), for which we have chosen the topic of structural reforms. This topic has been on our radar for a rather long time now. It is therefore not surprising that, at conferences, “structural reforms” is frequently used as a catchall term that lumps together all microeconomic or supply-side measures supposed to boost long-term economic growth and shock resilience.

As far as conference titles go, “A modern take on structural reforms – past and future challenges for CESEE and Europe at large” is pretty long, but it encapsulates at least three key aspects of a rather broad subject: First, we want to depart from the beaten track to shed some light on more inclusive growth strategies. Second, we want to collect critical assessments of achievements and failures of past structural policies with a view to adapting them so that such
policies help us address the remaining or newly emerging challenges more effectively. And, third, as is usually the case with the CEEI, we have a specific, albeit not exclusive, focus on Central, Eastern and Southeastern Europe (CESEE) – not least because this region has – by and large successfully – gone through a profound transition period. By transforming their economic and political systems, the CESEE countries have, so to speak, implemented the “mother of all structural reforms.”

Now, what is meant by “structural reforms”? In the 1950s, this term acquired specific significance when the IMF and the World Bank introduced the notion “structural adjustment” to describe preconditions for receiving emergency loans – including trade liberalization, fiscal consolidation and the elimination of price controls as well as attracting FDI and fighting corruption. Over the years, “structural reforms” has become for parts of the public opinion a code for deregulation, liberalization and privatization, often associated with wage cuts, job losses and unfettered market economies, where the winner takes it all.

While I think that this account is inaccurately shortened, I do believe that far too often structural policies are advocated as a panacea for growth in Europe. As a trained macroeconomist, I still believe that monetary and fiscal policies have a decisive role to play in stimulating the economy. It is true that, since the onset of the crisis, the euro area has performed worse than the U.S.A. in terms of per capita GDP growth, but the U.S. monetary and fiscal policy response to the crisis has also been much faster and more aggressive than here.

With that in mind, institutional reform of Economic and Monetary Union as a whole is a structural reform project that is crucial for the euro area, in particular with regard to complementing it by a Fiscal Union. This is, of course, a long-term project, but efforts to further deepen EMU have been stepped up recently. Additionally, the European Commission has raised the idea to provide financial incentives for structural reforms, recognizing their short-term costs while accruing their positive spillovers to the rest of the Union. Naturally, for reforms to be sustainable over the long run, domestic factors come into play.
Both monetary and fiscal policies rely on economic structures that are capable of absorbing any given stimulus. After all, macroeconomic measures can only exploit the long-term growth potential shaped by microeconomic conditions. In other words, structural reforms ensure the functioning of the monetary transmission mechanism and help create fiscal space. In turn, monetary and fiscal expansion may help in dealing with the short-term costs of structural reforms such as contractionary and unwanted distributional effects.

Moreover, in a monetary union, structural policies that keep costs and wages flexible and production factors mobile enable the economies of individual member states to swiftly adjust to asymmetric shocks. However, flexibility does not necessarily imply a decentralized structure. Let me just take the Austrian wage bargaining system as an example. With a collective bargaining coverage rate of 98%, our system is certainly one of the most centralized in the world. Yet, in terms of outcome, Austrian employees’ wages are sufficiently flexible so as to guarantee one of the lowest unemployment rates in Europe. There is a simple explanation for this puzzle: strong umbrella organizations of trade unions and employer associations make sure that sectoral wage agreements always take nationwide rather than sector-wide productivity increases into account. What is more, this tried-and-tested consensual practice extends far beyond wage bargaining. The Austrian Social Partnership might not be the fastest-moving organization, but it certainly provides the ownership needed for pragmatic and sustainable structural reforms. In contrast, labor market regimes with very little employment protection, for instance, tend to be less conducive to long-run accumulation of firm-specific knowledge. As research has shown, this type of productivity-enhancing innovation is, however, vital for a substantial industrial sector to survive in a high-wage economy.¹

During the transition process, many, but not all, CESEE countries followed the advice of institutions that – at that time – were guided by the so-called

Washington Consensus. This set of economic policy recommendations favored a shock therapy approach as opposed to a gradual approach more in line with the European social model. The debate on the right strategy remains heated to this day, and, for sure, will be reflected in this conference.

Overall, the CESEE region experienced a remarkable convergence process, which has been resumed after having been temporarily stalled by the crisis. Structural reforms definitely played an important role alongside macroeconomic stabilization, deep economic integration and a solid human capital base. Some countries were luckier than others, being located close to European centers of industrial gravity. Differing country paths can, however, also be explained by gaps in institutional quality. Very low scores in the Corruption Perceptions Index\(^2\), for instance, highlight the urgency of making the judicial system more effective and public administration more efficient. After all, lack of trust in the government reduces political support for the next generation of reforms, which are to address challenges such as demographic headwinds (low fertility rates, emigration and brain drain) as well as technological innovation, energy efficiency and social fairness.

One area where convergence has been less convincing is real wages, even if we take account of slower productivity change, sinking unemployment rates and weaker wage growth in the rest of Europe.\(^3\) Of course, low wages are not only a factor of competitiveness, but also of aggregate demand. With the skill component in production increasing, I wonder why the wage shares are still stubbornly low in the CESEE region. Tomorrow, we will hear a presentation by an OeNB researcher about a related issue. He will show that labor market dualities – given increased competition between temporary and permanent labor – have dampened wage growth in Europe overall and especially in CESEE.


\(^3\) http://www.etui.org/Publications2/Working-Papers/Why-central-and-eastern-Europe-needs-a-pay-rise
We have learned quite a few lessons from the crisis\(^4\): reforming labor markets without also reforming product markets intensifies deflationary pressures, in particular at the zero lower bound. Hence, comprehensive packaging of reforms is needed to reap the benefits intended. Ideally, reforms should also encompass attempts to make public administration more efficient and include a supportive macroeconomic policy mix.\(^5\) Furthermore, the right timing and sequencing of reform steps is equally important. Finally, the distributional consequences are to be taken seriously. In many instances, reforms create winners and losers, and ways to compensate the latter have to be implemented in the reform package. However, compensating reform losers does not just mean to increase unemployment benefits, but rather to implement active labor market policies and training that effectively improve people’s chances of getting decent new jobs in flourishing sectors. Past failures to take this into account help explain the populist backlash shaking the political systems across Europe and beyond.

Conference participants will discuss many more issues: for instance, the empirical evidence of supposed growth effects of reforms\(^6\); or the conditions under which long-run gains may outpace likely short-run pain; or the political economy of structural reforms – here the crisis element acts as a catalyst for reform\(^7\); and they might also discuss whether there is a one-size-fits-all structure for economies. Theoretically, the structure of an economy should rather depend on the stage and the path of its development. Nevertheless, structural convergence seems to be underway – at least according to the World Bank’s Doing Business ranking, which aims at measuring the outcome of business regulation. This ranking shows that European economies are becoming more and more similar, as “structural laggards” are gradually catching up. Some of the

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\(^4\) Draghi M.(2017) Structural reforms in the euro area. Introductory remarks by Mr Mario Draghi, President of the European Central Bank, at the ECB conference “Structural reforms in the euro area”, Frankfurt am Main, 18 October.


\(^7\) Dias da Silva, A. Givone, D. Sondermann (2017) When do countries implement structural reforms?, ECB WP.
CESEE economies, by the way, rank among the “structural leaders,” which is good in my opinion.

And now, I am looking forward to intensive and insightful discussions.