Conference on European Economic Integration 2017: A modern take on structural reforms – past and future challenges for CESEE and Europe at large

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Structural reforms in Central, Eastern and Southeastern Europe (CESEE) and in Europe as a whole were the focus of this year's Conference on European Economic Integration (CEEI), which was hosted by the Oesterreichische Nationalbank (OeNB) in Vienna on November 20 and 21, 2017.[2] Around 230 participants from 25 different countries attended the CEEI 2017 to listen to presentations by high-ranking representatives of central banks, international organizations and academia. The conference highlighted that Europe is facing new social and economic challenges such as globalization, digitalization, changing demographics, inequality and divergence. Even though the EU is still in need of further reform, the crisis has given way to huge reform momentum and triggered reform and integration steps such as the banking union, the strengthened Stability and Growth Pact and the Single Supervisory Mechanism. While structural reforms can foster growth and employment, they can also reinforce the unequal distribution of wealth, income and chances – a fact observed in many transition countries. Especially with respect to labor and product market reforms, trade-offs between growth and equality frequently need to be addressed. The focus of structural reforms should be on productivity-enhancing measures, in particular on education and innovation. Common legal norms could improve the financing of innovation in small economies and the funding of small-scale projects, which are typical for CESEE countries. Yet, far more often than legal obstacles, lack of human capital limits innovation.

In his opening remarks, OeNB Governor *Ewald Nowotny* noted that structural reform should not be seen as a panacea for growth in Europe. Especially in the short to medium term, monetary and fiscal policies play a decisive role in stimulating the economy. Yet, in the long run, structural policies are crucial for the euro area, Nowotny explained. From the monetary policy perspective, he particularly welcomed efforts to further deepen Economic and Monetary Union and progress toward more fiscal risk-sharing through a macroeconomic stabilization function. In this context, he referred to structural policies that keep costs and wages flexible and production factors mobile and thus enable the economies of individual member countries to swiftly adjust to asymmetric shocks in a monetary union. In the same vein, the European Commission has raised the idea of providing financial incentives for structural reforms, recognizing their short-term costs but also their positive spillovers to the rest of the European Union. Governor Nowotny noted that structural convergence among EU Member States – in particular in the CESEE region – is well underway. During the transition process, many CESEE countries followed the advice of institutions that favored a shock therapy as opposed to a gradual approach more in line with the European social model. Some of the reforms may have gone too far according to Nowotny, which might explain

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[2] *The conference proceedings will be published by Edward Elgar Publishing Ltd. in the course of 2018. Presentations and papers, information about the speakers and the conference program are available at www.oenb.at.*

why we have recently seen some policy reversals. Governor Nowotny summarized that in order to design future-oriented structural reforms, a comprehensive packaging of reforms is needed to reap the benefits intended. Ideally, reforms should also make public administration more efficient and include a supportive macroeconomic policy mix.

The reform agenda of a European Social Union

Georg Fischer, Former Director of the European Commission's Directorate-General for Employment, Social Affairs and Inclusion, started off the conference with his presentation of the reform agenda of a European Social Union. Just a few days before the CEEI, the EU, the European Parliament and the Commission had proclaimed the "European Pillar of Social Rights" in Gothenburg. While not a binding document, the proclamation is still a self-commitment by the Member States, responding to the social trends Europe is facing: globalization, digitalization, aging, inequality, unemployment and – more generally – divergence. The 20 principles in the proclamation have been drafted as individual rights, e.g. minimum wages that make it possible to live in dignity, public support and social protection (also for those with nonstandard contracts), fair working conditions and social rights in dynamic labor markets. Acknowledging the difficulties in implementing these principles, the European Commission offers several routes forward, including the foundation of a new authority that coordinates national labor administrations and a scoreboard of indicators to document progress in reaching social milestones. The latter could be used at a later stage for a system of conditional funding – a topic for the next budget negotiations.

Past and current reform strategies in Europe

The first panel on "Past and current reform strategies in Europe" was chaired by OeNB Governor Nowotny and featured governors and board members of the four Visegrad countries and Slovenia. *Boštjan Jazbec*, Governor of Banka Slovenije, started out by contesting the criticism directed at the ECB for creating an environment of instability. He argued that structural reforms would help mitigate the external effects of accommodative monetary policy but that, so far, such reforms were not being seriously tackled. Turning the argument around, he warned that if structural reforms do not happen we may face potential asset bubbles as a result of the ECB's monetary policy. He added that Banka Slovenije has been innovative and effective in addressing the challenges implied by the crisis, in particular in dealing with nonperforming loans. *Jozef Makúch*, Governor of Národná banka Slovenska, reported that reforms implemented in Slovakia since 2000 had boosted GDP growth and had a positive impact on the labor market up until the crisis. Subsequently, however, GDP growth stalled, requiring further reforms, especially in the realm of health care, education, R & D and IT. In a similar vein, *Barnabás Virág*, Executive Director at the Magyar Nemzeti Bank, argued that despite the currently better economic environment there is no time for idleness. As a lesson from the Hungarian crisis management experience, he pointed out that well-synchronized fiscal, monetary, structural and macroprudential policies are definitely needed; they have proven successful at reviving sustainable economic growth, bringing down public debt and increasing employment. However, according to Virág, despite many achievements there is still room for further strengthening competitiveness and boosting convergence. Particular attention should be paid to raising productivity, reducing large differences in competitiveness between large and smaller firms as well as to education, especially in light of the new industrial revolution. Interestingly, the remarks by *Jiří Rusnok*, Governor of Česká národní banka, contrasted somewhat with the previous contributions in that he said that the exceptionally good economic developments in the Czech Republic are not necessarily the result of any particular reforms over the past ten years. According to Rusnok, the authorities have only conducted sound fiscal policy while monetary policy has provided some additional stimulus. Finally, *Paweł Szałamacha*, member of the Management Board of Narodowy Bank Polski, explained that a substantial part of economic convergence over the last decade may be attributed to Poland's low starting point. While successive Polish governments have recognized that the "low-hanging fruits" have been picked, the necessary growth-enhancing reforms have been driven by long-run planning only to a limited extent. Polish authorities recognize in particular the need to improve innovation capacity, which should be the new long-run growth engine. However, according to Szałamacha, little progress has been observed so far in this respect. In the debate concluding the first panel the most lively discussion related to the benefits of being a member of the euro area. According to Jazbec, for a small open economy like Slovenia, the euro was an important anchor during the crisis. In stark contrast, Szałamacha argued that the adjustment mechanism of a floating currency worked well for Poland during the crisis so that joining the euro is not on the table at the moment. According to him, it is the issue of convergence that matters rather than the question of euro adoption. Yet another approach was taken by Rusnok, who believes that euro adoption is a purely political decision. While he stressed that the Czech central bank could easily live with both options, euro adoption is not on the horizon at the moment. He added that an important factor for a decision on euro adoption is the still uncompleted banking union. According to Rusnok, Česká národní banka would be happy to hand over powers if EU institutions were also willing to take over the responsibility.

Best practices – which reforms are sustainable?

Session 1 dealt with the fight against corruption and governance issues in Romania as well as pension reforms in Poland and was chaired by *Kurt Pribil*, Executive Director, Oesterreichische Nationalbank. In his introductory remarks, Pribil underlined the relevance of these two topics also for other countries in the CESEE region. Furthermore, he reminded the audience about the EU's cooperation and verification mechanism that had been set up inter alia due to concerns about the high level of corruption when Romania joined the EU in 2007. Moreover, Pribil briefly touched upon pension reforms undertaken in many CESEE countries in the late 1990s and early 2000s.

Alina Mungiu-Pippidi, Professor of Democracy Studies at the Hertie School of Governance, started her presentation by showing subindices from the Global Competitiveness Index and highlighted that the transparency of government policymaking has increased over the past ten years, but that no improvement can be observed with regard to favoritism in decisions by government officials and wasteful government spending. Mungiu-Pippidi also highlighted the suspiciously stable profit rates of Romanian companies that were living on public funds, also during the 2008/2009 crisis. When anticorruption prosecution gained momentum in the years after EU accession, some improvements became visible regarding government contracting in the construction market, however. Moreover, judiciary independence has improved markedly in Romania since 2007. Yet, Mungiu-Pippidi pointed out that government spending has remained very wasteful with regard to roads infrastructure investments and that administrative capacities have remained weak. Furthermore, Mungiu-Pippidi underlined the strong correlation between the level of corruption and brain drain. She concluded that Romania's crackdown on corruption (several high level politicians have been arrested) has not been sufficient to change systematic patterns of corruption and called for EU funds that will change patterns of poor governance.

Paweł Strzelecki, economic expert at Narodowy Bank Polski and assistant professor at the Warsaw School of Economics, started his presentation by discussing the problem of population aging in EU countries and highlighting related challenges with regard to public expenditures for pensions. He also pointed out that there are no easy solutions for reducing the consequences of population aging for pension systems (there are three options: changing the retirement age, changing contributions or changing pension benefits). Moreover, he pointed to the dynamic inconsistency problem: Pension reforms bring long-term benefits, but in the short term may be perceived only as a burden. He then gave an overview of pension reforms in Poland since the late 1990s. In his view, major pension reform steps were always conducted by governments with strong public support. Strzelecki then discussed how labor force participation rates were affected by the pension reform in 2009, the retirement age increases in 2016 and the return to lower retirement ages in 2017. He also highlighted the trend toward keeping stable replacement rates in the Polish pension system. In addition to familiarizing the audience with the case of Poland, Strzelecki also took a more general view and presented some data on pension reforms in the EU. Moreover, Strzelecki touched upon the implications of the robotization of jobs for the labor market and social security systems.

Financing technological change and innovation – heterogeneous growth opportunities across Europe

The second panel entitled "Financing technological change and innovation – heterogeneous growth opportunities across Europe" was chaired by the OeNB's Vice Governor *Andreas Ittner* and brought together representatives from Austrian banks and international financial institutions. Vice Governor Ittner referred to the profound shifts arising from technological change and innovation and ensuing disruptions in established firms' business models as well as structural and societal challenges, including distributional effects. He underlined the vital role of financing in addressing these challenges for both, the private and the public sector.

In her statement, *Claudia Höller*, Chief Financial Officer and Chief Risk Officer at Erste Bank der oesterreichischen Sparkassen AG, noted that the current economic recovery is supporting innovation and technological change. In this context she emphasized the important role of banks as reliable business partners for financing innovation. To fulfill this role banks need to be innovative and flexible themselves. They need to stay committed to their respective business models but constantly scrutinize them. She stressed the positive experience of start-up offers by Erste Bank. With respect to the catching-up performance in CESEE, she admitted that the speed and substance of the convergence process has not always met initial expectations, with the notable exception of innovation in e-commerce, e-government and broadband access. *Helena Schweiger*, Associate Director at the European Bank for Reconstruction and Development (EBRD), asserted that most innovations in the region are not new to the world, but new to local markets and firms. She highlighted that innovative firms are more likely to be adversely affected by an inadequate business environment, citing factors like corruption, skills mismatch and difficult access to finance as impediments to their business. The financial system in CESEE is strongly bank-based, which offers pros and cons for the financing of innovations: A bank-based system may hamper innovation by firms as intangible assets cannot be collateralized; also, firms may be hesitant to disclose sensitive information on innovative activity and banks may be technologically conservative. On the other hand, banks specialize in building lending relationships with clients, they may finance innovations beyond pure R & D and they may simply be the only source of financing for many CESEE firms. Schweiger also showed that firms whose credit demands are met innovate more. *Johann Strobl*, Chief Executive Officer at Raiffeisen Bank International AG (RBI), confirmed banks' interest in finding innovators and financing them to show their openness for innovation. Yet, typical bank-based financing is based on cash flow, which favors process innovation and innovation by large, established firms over start-up financing. Strobl identified new financial technologies as a small segment where banks support start-up firms and mentioned the RBI fintech accelerator program in this respect. He also pointed toward a structural disadvantage of CESEE countries, as small markets are generally less innovative. In his view a uniform legal environment could help overcome the problems of market size; further brain drain from the CESEE region needs to be addressed. *Tanja Tanayama*, Advisor at the European Investment Bank (EIB), reminded conference attendants about the importance of innovation for boosting subdued productivity growth in CESEE. She cited structural factors as reasons behind Europe's generally low levels of R & D intensity, which is even lagging behind China in this respect. The EIB's newly published investment survey shows that while access to finance has improved, lack of finance still remains an obstacle for innovative firms. Hence, Europe needs to move away from a purely bank-based system. Whereas Tanayama considered crowdfunding an important new development, she added that public support – which is limited by the fiscal compact – remains important. She strongly advocated guarantees as a better instrument for public support rather than grants. In line with the previous speaker, she also emphasized the lack of highly qualified staff rather than financing as an obstacle to innovation by firms. This point was widely taken up in the discussion, as was the issue of small country and project size. To remedy problems of size, teaming up with larger, Western European banks was seen as a good and fast reaction. Yet, referring to the example of Finland, Tanayama pointed out that such a short-term strategy does not afford protection against a too narrow specialization of countries, which is a natural way of trying to achieve a critical mass of innovation adopters. In conclusion, developing generic innovation skills through the education system, independent of a specific industry or sector, seems to be the way forward.

The EU perspective: learning from past reforms to address future challenges

In her dinner speech, *Sonja Puntscher Riekmann*, Jean Monnet Professor and Director of the Salzburg Centre of European Union Studies, argued that the crisis has returned Member States into the driver's seat, with the status of the European Council being enhanced. Puntscher Riekmann reminded the audience that it was only the crisis which allowed the implementation of a wide range of measures – such as banking union – that had been in the pipeline for a long time. Hence, a positive reading of the crisis recognizes that it paved the way for a great deal of transformation, such as the ECB becoming a true lender of last resort, the introduction of a large number of new instruments and a rise of new intergovernmentalism. Thus while the Member States themselves were setting the agenda, the solutions were European. This contrasts with a pessimistic view that perceives the EU's reaction to the crisis as "too little, too late" and as clumsy European decision making. In Riekmann's view, the complaints that the EU is too weak are not justified given the clear commitment to the euro. Despite difficult decision making, large national majorities were gained for the Single Supervisory Mechanism (SSM) and the fiscal compact. On the other hand, some measures taken to strengthen the euro have increased inequality and divergence in the EU, therefore the social dimension needs to be tackled with high priority now. This is all the more important since the social dimension constitutes the defining element that sets the EU model apart from other integration models. Riekmann admitted that tackling social issues is a difficult task as Europe is built around two contradictory lines of reasoning: the logic of economic openness versus the logic of national sovereignty. She concluded by underlining that Europe has achieved a lot but that nothing is guaranteed.

Revisiting transition reforms

Sergei Guriev, Chief Economist at the European Bank for Reconstruction and Development (EBRD) held the keynote speech on day 2 of the conference. He presented the key takeaways of the EBRD's past research on its activities in the EBRD region, he gave an assessment of reform measures and pointed out necessary adjustments to these measures to meet future challenges.

Due to far-reaching market reforms the EBRD region experienced a remarkable catching-up process between 1998 and 2009. Since the crisis, however, the region's recovery has been slow, and it particularly underperformed in relation to comparable emerging market economies. Guriev stressed that the drivers of the previous catching-up process, such as improved factor use, the region's inclusion in global value chains, European integration and the emergence of foreign banks and subsequent availability of credit, have been exhausted. As these "low-hanging fruits have been harvested" a new growth model as well as legitimate and sustainable reforms are needed. Guriev made three propositions to boost productivity in the EBRD region: First, he suggested increasing human capital, second, boosting investment in infrastructure and lastly promoting innovation in order to improve firm productivity.

Given the weak post-crisis performance, Guriev expressed concerns about stalling reform efforts and weak reform support. Besides corruption limiting trust in institutions, the main reason for the distrust in reforms is that classic market-oriented reforms (liberalization, privatization, capital markets and pension systems) – while benefitting overall growth in the region – have notably increased income and wealth inequality across countries. Furthermore, he highlighted the emergence of inequality of opportunities, a form of inequality that is based on factors such as gender, race and family background – hence, factors individuals can hardly change themselves. This suggests that there are two types of inequality: "unfair" inequality of opportunity based on differences in innate circumstances and "fair" inequality based on differences in effort. EBRD research suggests that unfair inequality of opportunities has a negative effect on support for reforms, while fair inequality shows the opposite effects.

Guriev therefore stressed that transition reforms need to be adjusted and broadened in order to promote equality of wealth, income and opportunities, so they can subsequently regain support. He concluded that reforms need to enhance competitiveness, integration and resilience, and that they need to be well governed, green and inclusive.

The winner takes it all? Distributional effects of reforms

Session 2 dealt with the distributional effects of structural reforms and was chaired by OeNB Director *Doris Ritzberger-Grünwald*. In her introduction, Ritzberger-Grünwald emphasized the welcome shift in focus on topics such as equality, economic inclusion and equal opportunities, which was strongly reflected in Sergei Guriev's keynote speech and the 2016/17 EBRD Transition Report. She also pointed toward the leading role of the OECD in assessing and providing advice on structural reforms and further alluded to the puzzling breakdown of the Phillips curve and disappointing wage growth as compared to before the crisis.

Orsetta Causa, Senior Economist at the OECD, gave an overview of the work of the OECD, which was among the first institutions to analyze the nexus between policies and income inequality. The OECD's analysis of growth dividends for different income groups takes a granular approach. As such, the analysis differentiates between the macro effects of reforms, i.e. macro-level effects through labor productivity or labor utilization, and micro effects, i.e. effects that do not result from the macro effects and thus are additional effects.

Differentiating between these effects, Causa illustrated how reforms affect different income groups: For example, a reduction of unemployment benefits has an overall disequalizing effect on household income. Moreover, while better labor utilization (macro effect) contributes positively along the income distribution, micro effects suggest even stronger negative effects for the poor. By contrast, product market reforms have small positive effects for all income groups, and gains in economic performance thus seem to have less disequalizing effects. Causa highlighted that social preferences influence reform tradeoffs. Tradeoffs between growth and equality occur when reforms adjust social benefits or labor markets and target poorer households. Product market reforms have less negative distributional effects. OECD research suggests that, as a result, easing barriers to firm entry and competition in product markets delivers macroeconomic gains without creating tradeoffs.

Following this presentation, *Paul Ramskogler*, Principal Economist at the OeNB, gave insights into his research on the nexus between wage setting and inflation. Since the crisis, wage growth has been stubbornly low and the correlation between unemployment and wage growth has decreased, evident in a flattening of the Phillips curve. In discussing the drivers behind this trend, Ramskogler emphasized that unemployment is not the only determinant of labor market slack. He argued that considering the existence of nonlinearities of the Phillips curve relationship as well as using a broader set of unemployment or employment measures may increase the fit of nexus estimations.

Going beyond inflation, productivity and unemployment, Ramskogler investigated whether labor market segmentation, i.e. the structure of the labor market, also affects wage growth. Therefore he included labor market dualities (different qualities of jobs), proxied by the incidence of temporary contracts, in the wage determination equation.

He found that the incidence of temporary contracts has dampened wage growth more strongly than before the crisis, and that these have a larger effect in CESEE countries. There are two motives for using temporary contracts, i.e. the avoidance of wage-steering institutions and higher competition among employees. Ramskogler concluded that a reduction of the share of temporary contracts might smoothen the macroeconomic impact of labor market developments.

How can structural reforms serve integrated production networks and mitigate protectionist threats?

The session that addressed this question was chaired by *Helene Schuberth*, Head of the Foreign Research Division of the OeNB. She noted that the consequential decline in trade costs but also technological progress have led to a fundamental transformation of production processes. Today, most export goods are produced in an internationally fragmented manner, which has given rise to international production networks or so-called global value chains (GVCs). European countries show a high degree of participation in GVCs, especially the smaller euro area members and the CESEE countries. While economics is able to describe patterns of GVC specialization fairly well, it still needs to improve the understanding of how domestic policy measures – and in particular structural policies – should be designed such that they promote integration and at the same time ensure high, sustainable and inclusive income growth. The fact that economic integration – and thus also globalization – in many instances has only accomplished economic growth that was not inclusive and therefore created losers, especially among low-skilled workers in European economies, has led to rising protectionist sentiment.

Raphael Auer, Senior Economist at the Bank for International Settlements, presented recent research from his institution. The growing importance of GVCs has given rise to a number of spillover effects – for instance R & D spillovers, business cycle spillovers or inflation spillovers. As a result, national inflation dynamics have synchronized and this has contributed to the rise of globalized inflation, which is of eminent policy interest to central banks. Recent political events (e.g. Brexit, U.S. election) have brought protectionism to the fore again. A rise in protectionism would spill beyond directly affected partners via the global production network. Hence, bilateral import tariffs would shift the global geography of trade and affect third-country trade, too. It even could cause a global rebound of inflation that has gone missing over the last decade. Furthermore, BIS research confirms that bilateral import tariffs would have heterogeneous distributional effects across sectors but much less across skill types.

Robert Stehrer, Scientific Director of The Vienna Institute for International Economic Studies (wiiw), elaborated on the spillovers of nontariff measures (NTMs) in international production networks. NTMs, which represent modern forms of protectionism, are an important and debated issue in trade negotiations. They are strongly related to behind-the-border measures and can be put in place for various reasons (e.g. technical product standards, consumer safety or environmental protection), not only because of their effects on trade. Robert Stehrer emphasized that NTMs should not necessarily be seen as trade costs. NTMs are often beneficial in themselves, promoting safety standards and consumer needs, and they can lead to a reduction of trade costs due to harmonization. Related empirical research of the wiiw shows that ad valorem equivalents of NTMs are trade enhancing in almost 50% of cases. Clearly, the impact of NTMs on trade are diverse due to the complexity of regulations. Yet, evidence suggests that on average NTMs are less trade restrictive than (already low) tariffs and in general positively affect growth and productivity as well as the quality of exported goods.

Daria Taglioni, Lead Economist at the World Bank, encouraged CESEE countries to pursue more structural reforms for upgrading their position in GVCs and for avoiding the middle-income trap. At first glance, CESEE total factor productivity (TFP) growth has declined significantly since 2010 compared to the pre-crisis levels. However, once one controls for enhanced GVC participation and technology creation at GVC level, sectoral post-crisis TFP growth was not significantly different from pre-crisis TFP growth. In other words, on a sectoral level TFP growth returned where GVC participation was enhanced and where technology creation and catching-up continued. Over the past decade GVCs evolved from exploiting primarily fixed comparative advantages (via vertical specialization in trade and FDI) to increasingly using dynamic comparative advantages (e.g. trade in services, knowledge and innovation networks). As a result, macroeconomic dependencies between countries deepened, income distributions became more polarized and new barriers to innovation were created. Clearly, in terms of structural reform, there is no silver bullet to address these globalization challenges for the CESEE region. Nevertheless, Taglioni concluded that growing complexity will require ongoing adjustment and reforms. To participate successfully in GVCs the traditional prescription of labor and product market reforms will not be sufficient. She advocated a holistic approach that carefully sequences a bundle of trade, infrastructure, competition, education and innovation policies that nurtures a local manufacturing base as well as environmentally, socially and governmentally sustainable business models.

Reforming EU frameworks or EU countries?

The last panel discussion of the conference was chaired by OeNB Executive Director *Peter Mooslechner* and raised the following question: "Reforming EU frameworks or EU countries?". In very general terms, structural reforms can be defined as all fundamental institutional changes that improve the functioning of an economy. Mooslechner emphasized the vagueness of the meaning of "structure," referring to Fritz Machlup's 1958 article[3]. He pointed out that, when talking about structural reforms, we need to be aware of differences in objectives, in views concerning the effectiveness of measures as well as in national, regional and individual preferences. After all, these differences are what makes it difficult to agree on structural reforms on a broader level.

The panel discussion was kicked off by *Klaus Masuch*, Principal Advisor at the ECB. He argued that recent reform progress has been limited due to vested interests, people's fear of losing out and weak social trust. Moreover, "Brussels" or the euro area are often used as popular scapegoats. Against this background, Masuch warned against the risk of delaying reforms and even of a vicious "no-reform cycle." By way of example he demonstrated that institutional quality – a crucial catalyzer of growth – has deteriorated over the last 20 years in several EU countries. *László Csaba*, professor at Central European University and Corvinus University, stated his firm belief that despite some remaining problems Economic and Monetary Union (EMU) has been a great success and that almost all necessary reform steps have been taken. Most importantly, the ECB has become a true lender of last resort and banking union has gone a long way. Moreover, Csaba emphasized that he does not think that Europe has hindered adjustment and that he does not see any benefit of staying out of the euro area for small and open economies. *Hubert Gabrisch* of the Wiesbaden Institute for Law and Economics contested the view of his preceding speaker, voicing his skepticism about centralizing everything at EU level. In his view, recent crises have challenged the existing architecture of the EU. In particular, asymmetric shocks have become synchronized and have more lasting effects. As a result, monetary policy needs to be complemented by longer-term policies and structural reforms. Respecting the unique political character and reality of the EU, Gabrisch would prefer the creation of new sovereignties on the EU level rather than the transfer of national sovereignties. In concrete terms, he proposes the creation of a central fiscal risk-sharing capacity. He believes that such an intergovernmental arrangement would be feasible without any Treaty changes. Moreover, it would reconcile a euro area-wide fiscal risk-sharing instrument with the sovereign fiscal responsibility of member countries as well as address the wide-spread mistrust against a redistributive transfer union. *Lúcio Vinhas de Souza* of the European Political Strategy Centre, the European Commission's in-house think tank, expressed the view that the effectiveness of reforms has declined over the last ten years. Hence, for more sustainable reforms different types of instruments would be necessary. The European Commission has addressed this issue through an overhaul of its surveillance tools to better monitor vulnerabilities in the Member States.

To conclude, the CEEI identified ample room for future reforms and pointed toward concrete reform options in various policy dimensions. The conference proved to be very topical as the current economic recovery is providing a good environment for implementing necessary reforms. Hence, by focusing on structural aspects of EU reform and reforms in EU Member States, the conference added to a long list of successful and interesting conferences on European economic integration.

[3] *Machlup, F. 1958. Structure and Structural Change: Weaselwords and Jargon. Zeitschrift für Nationalökonomie. 280–298.*