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Closing remarks at

2nd Annual CBBH Research Conference

“Macroeconomic Imbalances and EU Convergence”

7. November 2019.

Dear Mr. Governor,

Ladies and gentlemen,

It is a great honor for me to give closing remarks at this important Conference. However, it is a tough task after all those interesting presentations, papers, discussions etc. The bad news is I am afraid that despite Einstein’s concept of relativity of time I would kindly request your attention for several more minutes of so called absolute Newtonian time. Good news is I will not summarize what has been said so far , but will attempt to give this Conference a broader perspective by answering three questions: 1) When did it all start? 2) Is „converging“ towards EU still a valid goal? and 3) Where do we go from here?

1. **When did it all start?** I mean when did convergence toward EU start, not macroeconomic imbalances. I guess that since the beginning of time we had imbalances even without being aware of them or being able to measure them. But what about convergence? Convergence towards EU started with the Fall of the Berlin wall. Almost to a day (09. November 1989.), three decades ago a historical event happened for the World, more so for large part of Europe and especially for this part of Europe. The Berlin wall, symbol of divided Europe but Cold war as well has been demolished. This physical and ideological divide which stood from 1961 to 1989 has fallen. Thus, started the process of transition and consequently EU convergence. True, the then Yugoslavia was not part of the Warsaw Pact, it was not strictly speaking „behind the Iron Curtain“, but it was not a liberal democracy with flourishing and efficient private ownership market economy either.

2. **Is EU still a valid goal for countries in South-East Europe?** Last political events and I mean not opening negotiations with North Macedonia and Albania¹ is a blow to enlargement process of EU. Some speculate that this may weaken the reform momentum not only for them but for other countries in the region, even those that opened negotiations (Serbia, Montenegro) and of course, still potential candidate Bosnia and Herzegovina. Others claim differently that this should strengthen countries willingness to reform toward EU. As if burden of proof is now on the candidate countries. But the question is should those countries still aim towards EU as their strategic goal, or should they seek alternatives? My answer to this question is a big yes. EU is and should remain to be the goal for countries in this region. To quote Winston Churchill: "Democracy is the worst form of government except for all those other forms that have been tried from time to time." Based on my own experience, EU enlargement and its achievements have been positive by most accounts. I am convinced that my own home country- Croatia would not be as developed economically nor politically today were it not for the EU. Let me emphasize that EU was and still is a strong magnet that attracts its neighbors into joining this members-only club. A short walk down the memory lane . As the Iron Curtain fell, most former communist countries chose membership of the EU as their ultimate goal. Geographical proximity was an important, but not the only, contributing factor. Most countries wanted to join the EU for its high standards of living, political democracy and more generally a „human“ way of living. **Compared to the rest of the world, the EU has the highest quality of life.** Therefore, joining the EU has been a bright beacon, helping navigation along the paths of post-communist reforms for many. As I was policy maker for some time in the last century,² I can testify firsthand that EU membership was the main driving force behind economic reforms. What were the main transmission mechanisms for convergence toward the EU and the Euro? First it was legal framework and the EU rules. *Acquis Communautaire* is not a menu from which to pick and choose. It is a set of rules and adopting them is a necessary precondition

¹ <https://www.europarl.europa.eu/news/en/press-room/20191021IPR64717/failure-to-open-accession-talks-with-albania-and-north-macedonia-is-a-mistake>

² See my CV at markoskreb.hr

for EU membership. If you want to be a member of this club, you must adapt and obey them. This worked very well for Croatia. As a former socialist economy, without those rules we would have endless discussions on how to address a reform. Let's take an example of central bank independence. There is no doubt in my mind that without the EU and the ECB watching changes in our legislation, the Croatian national bank's law and its independence would look quite different today. Populism and printing money were very much alive in our country long before it became fashionable in Europe or in the world. In one of his blogs the famous economist Paul Krugman quoted an experienced policy maker who said that bad economic ideas are like cockroaches, you flush them down the toilet but sooner or later they come back. The EU and its rules have been playing (at least partially) the role of „flushing“ bad economic ideas away in Croatia. Let me mention the example of shipyards in Croatia which over the years has received ample taxpayers' money. Some of them are still not profitable. Was it not for the EU state aid rules, I am sure this waste would have been even bigger? As a taxpayer, I say thank you EU³! Second transmission mechanism was *via* set of macroeconomic „benchmarks“. The Maastricht criteria are the first set of important economic parameters for a country to be considered stable. As Croatia has decided it wishes to join the Euro sooner rather than later, this set of benchmarks helps in guiding policy making and stopping endless discussions with populists on topics such as why do we need low inflation? I am sure that our public debt would continue growing were it not for EU's Stability and Growth Pact, the Macroeconomic imbalances procedure and the Excessive Deficit Procedure. Third transition has been going on through financial system integration. I personally have no doubt that foreign banks' contributions to the economic development of Croatia have been and are today positive and relevant. First, following the privatization and sale of some banks to foreign banks, there was no need to bail them out – unlike most banks bailed out by taxpayers' money in former Yugoslavia. Second, they brought not only fresh capital (huge inflows) but new management,

³ See: https://ec.europa.eu/info/sites/info/files/economy-finance/foc_conf_website_marko_skreb_website.pdf

modern techniques, and in general best (or at least better than earlier) practices. They increased competition, so domestically owned banks had to adapt and become better. The key word here is increased competition and benefits for consumers.

I hope I have successfully demonstrated why EU should remain goal for this part of the world. I ask doubting Thomases, what are the alternatives to this path?

3. **Where do we go from here?** As the world is changing countries must continue to reform whether to Converge or correct macroeconomic imbalances or not. *Panta rhei* as Heraclitus said. Everything is flowing. So are our economies. To end my speech let me share with you four lessons I consider relevant on this topic⁴.

Lesson 1: *Rome was not built in a day*. We, people from Southeast Europe are impatient. We expected higher living standards (like Germany at least) and developed institutions in a short period of time. When thinking about future progress we need to be patient. Therefore, looking backwards and acknowledging the tremendous progress we have achieved is not only beneficial as motivation for the future, but also necessary to keep reform *mojo* alive.

Lesson 2: *We must indeed all hang together, or most assuredly, we shall hang separately*. It seems that the UK has forgotten this old Benjamin Franklin's admonition. Pity, as the whole Brexit process is proof of how painful a divorce from the EU can be. I am convinced that despite drawbacks, being part of EU and "hang together" helps us especially in hard times.

Lesson 3: *Every action creates a reaction*. This Newtonian Law applied to economic reforms works and should be remembered. Typically, every reform redistributes income. Thus, there are losers and winners of reforms. To minimize obstacles to reforms, it is imperative to think about the „losers“, compensate them in one way or another and try to create win-win situations. It seems that this was widely forgotten in the past, income and wealth inequalities have grown significantly⁵ and in the post-Picketty world populism is on the rise.

⁴ Partly based on: <https://www.markoskreb.hr/articles-and-speeches/the-transition-process-its-all-about-people-isnt-it/>

⁵ I refer to inequalities within mostly advanced economies.

Lesson 4: *Keep Darwin alive*. Competition policies are more important than ever. Even in a single EU market, a concentration of BigTech companies (Google, Amazon, Facebook and Apple, but others as well) are only one of many cases where additional regulation and competition policies must be preserved. Do you think that a small country like Croatia can better stand against Facebook or Google than Ms. Verstager the new-old EC commissioner and vice president can?

The EU was, and still is, the main magnet for many countries in South East Europe and generator of needed reforms. So convergence must continue.

Concluding remarks.

In 1963 at the peak of the Cold War, JF Kennedy ended his famous speech with the following words: *“Ich bin Ein Berliner”*. He never dreamed that a quarter of a century later the wall would collapse. Allow me to paraphrase JFK and say: *“Ja sam Sarajlija”*. And I mean this not only metaphorically. When I did the math, it turned out I have spent almost full four years of my life in Sarajevo. I hope that this Conference, and in general work done by CBBH on a broader scale is the step toward joining the big EU family.

Thank you all once again for this great Conference.