

## **PRESS RELEASE HJ SCHOO LECTURE KLAAS KNOT 1.09.2020**

### **Strengthening the monetary union to help Europe emerge from the coronavirus crisis**

The European Union can emerge stronger from the current corona crisis if its members are prepared to work together to put an end to the growth divergences within the monetary union.

This was one of the points made by Klaas Knot, President of De Nederlandsche Bank this Tuesday, during the twelfth annual Schoo lecture which he gave in Amsterdam. The HJ Schoo lecture is organised by weekly current affairs magazine Elsevier and marks the start of the political year.

In his lecture, Knot outlined how much the Netherlands and other EU Member States benefit from European cooperation. The annual benefits of single market membership for the Netherlands have been calculated at between EUR 6,000 and EUR 10,000 per household.

“Even when we take into account the Dutch contribution to the EU budget, there are still substantial welfare gains for the Netherlands.” said Knot, “In other words, in the Netherlands we have the European single market to thank for a big piece of our pie.”

At the same time, President Knot drew attention to economic growth divergences within the EU. For example, stronger economies have benefited from the elimination of exchange rates through the introduction of the euro, while it has been a relative burden on weaker economies. Consequently, There is a growing divide between stronger and weaker economies. Knot also cited imbalances within countries: businesses have benefited more than households from the single market, the euro, and international free trade.

According to Knot, concerted efforts are needed to tackle the ongoing growth divergences. Not only to reduce the risk of future euro crises, but also because these imbalances undermine public support for ‘Europe’.

Knot: “The imperfections in the Economic and Monetary Union are not like the coronavirus, which hit us out of nowhere. We created them ourselves. And that means we can also fix them ourselves, if we want to.” Knot sees three opportunities to achieve this.

The first is to fight the coronavirus crisis collectively and effectively. European heads of state took an important step towards achieving this by creating the Next Generation recovery fund. “That way we can kill

two birds with one stone: we narrow the gap between those leading the way and those lagging behind, and we invest in the sustainable growth potential of the euro area.”

Secondly, euro area countries need to better coordinate their fiscal policies. In this respect, Knot argued for more flexibility in the application of fiscal policy, with a greater role for the individual debt positions of countries. In economically more favourable times, heavily indebted countries need to make more effort to reduce their debt burdens than countries with lower debt levels. In doing so, the emphasis should be on growth-enhancing reforms.

Knot does not therefore presently see any reason to introduce spending cuts or higher taxes in the Netherlands. However, it is important for the government to strengthen the growth potential of the Dutch economy by means of reforms (such as to the labour market and tax system) and investments.

Thirdly, more coordination is also needed in other areas of economic policy. Economically weaker countries need to reform in such a way as to increase their competitiveness. This is good for their exports, economic growth, levels of employment, and the sustainability of their public debt. Economically stronger countries can use reforms to create more room for household spending. This not only benefits households, but will also boost their imports. For the Netherlands, it is important to lower taxes on labour and tackle the imbalances in the labour market between permanent and flex workers.

Knot acknowledged that his vision for a stronger currency union requires countries to sacrifice some of their own autonomy, and that this requires courage. But in return, the pay-off will be a more stable and prosperous currency union. And to do so policymakers must clearly present the pros and cons of European integration, and be open to discussion. They must also ensure the benefits of European cooperation are shared equally by everyone.

Knot closed his lecture by calling on politicians: “to state their preferences and to present them clearly to their voters. That is why I hope, or actually I count on seeing a spirited debate on the future of Europe in the run-up to the parliamentary elections next spring.”

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