Europe's growth. A sceptical view

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To appear in *The Delphic Oracle on Europe Loukas Tsoukalis and Janis A. Emmanouilidis (eds.) OUP*

Introduction

The most severe global recession of the post war period has produced permanent changes in the global economy. The economy is weaker, in terms of growth and fiscal sustainability, especially in advanced countries, and the balance of economic power has further shifted towards emerging countries. Europe may well be the area where the long term consequences of the crisis are felt more severely. The Greek crisis, which marks a new phase in the global financial crisis, is unveiling structural weakness in the institutional architecture of the euro area. Addressing such challenges will require stronger EU institutions and stronger growth. However it is not clear, to say the least, that Europe has the energy and the leadership to adreess these challenges affectively. This paper looks, first, at the main features of the global macroeconomic scenario after the crisis. It goes on to deal with the challenges posed to Europe by the exit from the recession and fiscal consolidation. It then addresses the determinants of longer term growth looking at the (global) demand and supply sides. It concludes by arguing that, while the economic strategies to deal with such challenges are known, and generally shared, the perspectives of implementing them are rather bleak as political economy consideratiosn suggest that the necessary consensus will be increasingly difficult to obtain.

An adverse macreoconomic environment

The outlook of the new decade does not look bright for the European economy. And this for several reasons. To begin, we can expect a fall in potential output (OECD 2009). There are three main channels through which this could happen. First, a portion of the increase in the number of unemployed during the downturn could become irreversible. This can happen when workers lose attachment to the labor force and their skills atrophy during lengthy spells of inactivity. Consequently, it becomes more difficult for them to find employment once the recovery begins. In the wake of past recessions, labor input has been reduced through a combination of lower labor force participation and higher structural unemployment as negative shocks have interacted with inflexible labor markets. Second, steep reductions in investments by businesses and households are characteristic of most downturns. Investment is also likely to be lower following the crisis to the extent that the cost of using capital is higher, due, for instance, to larger risk premiums. During recessions investment often falls sharply and firms go out of business. This may accelerate the scrapping of capital or lead to its relocation, thus lowering the capital stock. Financial crises exacerbate these typical effects of recession by impairing financial intermediation, raising further the cost of capital, and forcing otherwise viable firms out of business. Finally, intangible investments, such as spending on research and development, are among the first outlays that businesses cut back during a recession. The resulting impact on growth can be significant, because R&D is needed to sustain the discovery of innovations. In fact, the productivity gains of workers today are often in part the fruits of R&D outlays from a decade or more ago. The potential impact of the financial crisis on the level and growth rate of total factor productivity is more ambiguous. On the one hand, it may lower total factor productivity by reducing the R&D intensity of the economy as firms reduce such spending. On the other hand, recessions may lead to the closure of the least productive lines of activity and force the least productive firms out of business, thereby increasing average productivity across the economy.

An additional source of concern will be fiscal sustainability (Padoan 2009). Debt levels are rising and will rise significantly over the next few years, in Europe and elsewhere in the OECD area, as a consequence of the massive fiscal support measures that have been taken to face the recession. Crisis driven fiscal stimulus impacts on debt accumulation on top of commitments that arise from existing obligations, including those related to ageing. Further, the fiscal stimulus is only one determinant of crisis-related debt accumulation, the other being measures to support the financial system. Historical evidence shows that the huge debt build-up in the aftermath of crises is the consequence of both recession-led falling revenues and the spending increases introduced to counter the recession. This seems to be the case this time too. The average debt level in OECD countries has risen sharply and significantly since the outbreak of the crisis and is expected to peak at 100% in 2010, with some countries moving well beyond this figure.

Such a steep rise in debt has a significant impact on the size of fiscal adjustment that will be needed to ensure debt sustainability. According to the standard debt dynamics formula, for a given primary balance, the debt to GDP ratio declines as long as nominal gdp growth is higher than the nominal interest rate. For given growth and interest rates, the primary surplus needed to stabilize debt rises significantly in almost all countries. Such increases, coupled with the fiscal deficits generated in response to the crisis, significantly increase the fiscal gaps. Of course, lower long term growth, itself possibly the result of the recession, means less sustainable debt dynamics. And growth could be lower not only because of larger output gaps but also because of lower potential output.

The new fiscal landscape generated by the crisis raises several concerns. As mentioned the risks associated with rising government debt burdens could be further aggravated by lower potential output growth and higher interest rates. The effects of this reduced potential output might then have more serious fiscal implications if associated with a permanent decline in employment, rather than a decline in productivity. Generalized rise in debt,will, especially as monetary policy tightens albeit gradually, generate higher interest rates. However the risks of paying rising interest rates will be higher, and the consequences more serious, for those countries where debt burdens are already very high. These risks could become even higher for those countries tempted to inflate away debt.

All this will take place in an environment of rising competition among sovereign borrowers that will have to place on the markets increasing amounts of debt. A number of euro area members countries with higher debt levels and/or poor fiscal credibility will face higher risk premia on the markets..

The possibility of a vicious circle—rising debt restraining growth and pushing interest rates up—developing over the medium term cannot be ruled out. In some cases the debt burden could become unsustainable, opening the way to possible defaults and/or rising inflation.

This overall picture is further deteriorated if we take into consideration that the global environment may less conducive to demand growth in the medium term. We can expect the US and other advanced economies to grow less strongly as households increase their savings to recover wealth losses. This negative effect is likely to be offset only partially by the sustained growth in emerging economies, China in the first place, which is largely policy driven.

The global demand environment could turn out to be more unfavourable to Europe by the persistence of global payment imbalances. These have narrowed as a consequence of the recession but their underlying determinants are still intact and, absent major policy adjustments, they will start to widen as global growth resumes. The negative implication for Europe of persistent global imbalances is that, as the exchange rate between the dollar and the renmimbi is not modified, the euro will continue to face an appreciation vis a vis both currencies and a loss of competitiveness.

The adverse macroeconomic environment for Europe could be aggravated by increasing divergence within the EU and especially the euro area. Payment imbalances are present within the euro area as well with, on the one hand, countries with current account surpluses and sustainable fiscal positions and, on the other hand, countries with current account deficits, and unsustainable fiscal positions. In this respect the structure of global imbalances is reproduced, with southern economies providing a net contribution to demand which is however unsustainable, and Germany playing the role of China with a strong current account surplus backed by a much more solid fiscal position. This configuration is bound to generate a deflationary bias on internal euro area demand as the pressure on deficit countries to adjust increases.

This poses a serious policy dilemma to the euro area as a whole. Fiscal sustainability requires that countries with rising debt and weak fiscal record take prompt and vigorous action to stabilize public finances. If this policy action is taken by several countries at the same time a negative impact for the euro area as whole will result, adding to the weak global environment scenario. On the other hand, if such action is not taken the credibility of the euro as an area of monetary and fiscal stability may be at risk. Markets have priced down the euro as doubts have risen on the fiscal sustainability of some of its members. The Greek crisis (at the time of writing) has highlighted serious vulnerabilities in a number of euro area countries as well as gaps in the institutional structure supporting monetary union.

Exiting the recession and the response to it

There are two, mutually reinforcing, strategies to deal with this unfavourable environment in the short to medium term. To strike a better balance between fiscal sustainability and growth within the euro area, and (hence) improve the functioning of the Stability and Growth Pact. To develop and implement an affective growth strategy at the global level.

On the first point one can reiterate the need to take into account the quality of public finances in assessing fiscal sustainability within the SGP (Padoan and Rodrigues 2004). This approach is even more needed now as fiscal sustainability in a number of countries will require action both on the spending and on the revenue side to achieve the primary surpluses needed to maintain debt sustainability. And indeed in the response to the recession many countries, most notably outside the EU, have taken this approach.

The composition of fiscal packages, both in terms of revenues and expenditure items, matters for growth (Padoan 2009). Growth is more likely to flow from productive government expenditures, such as those supporting education and research and development (R&D), and low tax rates on capital. Different tax packages impact growth differently.

So, can stimulus packages also raise potential growth? In addition to the tax structure, fiscal stimulus could have a positive impact on long-term growth beyond the multiplier effect to the extent that public investment, in both physical and immaterial infrastructure, affects potential growth. The impact of infrastructure on output is difficult to pin down and the direction of causality hard to determine empirically. Nevertheless, there is some evidence that infrastructure investment has positive effects that go beyond the impact expected from an increase in capital stock. Furthermore, infrastructure investment appears to have a nonlinear effect with, on average, a stronger long-term effect on growth at lower levels of provision. These results suggest that there are a number of conditions which must hold in order for a positive effect on long-term growth to flow from investment in infrastructure.

First, before undertaking investment in new capacity, it is important to ensure that best use is made of existing infrastructure. User fees and congestion charges can play a key role in ensuring efficient use of scarce infrastructure and also give more accurate signals as to where additional capacity may be warranted. Curbing the anti-competitive practices of incumbent infrastructure operators can also increase effective capacity. Incentive regulation, such as setting price caps for infrastructure services, can help ensure that investment is cost reducing and mimics a competitive environment. Independence and accountability on the part of regulators can help to establish a stable and credible framework for infrastructure investment.

Second, a competitive environment is generally more supportive of the efficient use of resources and there is evidence that removing barriers to entry can foster higher rates of investment in the network industries. Barriers to entry appear to harm investment, especially in the telecommunication and energy sectors, with vertical integration curbing firm-level investment in the electricity sector.

Third, the impact of public investment on growth should also be assessed in connection with the provision of other factors of production. One example is investment in research and development and, more broadly, in innovation infrastructure. A given amount of innovation related spending will have different impacts depending on the extent to which complementary factors are available, most notably human capital. Empirical evidence confirms the positive impact on growth of human capital and innovation related activities

This suggests that the role of the quality of public finances in supporting growth would be greatly enhance by a further strengthening of the Single Market initiative. It also suggests that there is scope for considering EU wide network projects, possibly financed by eurobond issues.

The SGP mechanism could also be reinforced by further strengthening the lines of reforms taken a few years back which have introduced some flexibility in the time needed to restore fiscal sustainability, especially in the case of measures related to the implementation of structural reforms and growth enhancing actions

Last but not least, more coordination among the national budget processes, at least in terms of timing and disclosure could help exploit externalities and avoid negative externalities which could lead to compounded recessionary impacts.

The Greek crisis has also highlighted that, in the path to fiscal sustainability, debt dynamics may turn out to be unsustainable, opening the way to possible debt default situations. The SGP is an instrument conceived to monitor fiscal discipline but it is ill suited to deal with crisis prevention and resolution cases which may happen within monetary union. This signals the need to develop such (ÏMF style) instruments for monetary union and the EU at large.

Entering into what? Long term growth. The demand side

Beyond the short and medium term the challenge for Europe is to restore a strong and sustainable rate of long term growth. Over the past decades growth in Europe has been on a declining trend. What can be done to revert such a trend?

A very simple way to address the determinants of Europe's long term growth is to view it as the result of the interaction of (the rate of change in) aggregate demand and (the rate of change in) aggregate supply. For a large economic area such as Europe this means confronting, respectively, global aggregate demand and Europe's supply response.

Aggregate demand, for a given degree of market openness, depends on the organization and structure of the international payment system. For example, a system based on an hegemonic country that is able to finance excess imports through the issuance of its national currency could, other things equal, generate more global demand that a system where there is a number of large economies running trade surpluses (matched by deficits elsewhere).

The global crisis has put an end to the so called "Bretton Woods II system" that, in spite of several shortcomings, has been able to provide sustained demand growth for the global economy for a prolonged period of time. The Bretton Woods II system also exemplifies well the attitude that Europe has taken over the years vis a vis these issues. In a nutshell, this attitude is one of reactive adaptation rather than proactive modification. Europe has been active in building a European monetary system with the purpose of strengthening European stability, also as a response to external developments in the international monetary system. It has been much less proactive in shaping the international monetary system itself.

After the period of instability that followed the collapse of the Bretton Woods system in 1971 Europe has developed a strategy aimed at providing monetary stability and avoiding that macroeconomic divergence, for instance in exchange or inflation rates would weaken internal integration. This was, ultimately, the rationale behind the setting up of the European Monetary System which, however, did not stand up to the pace of globalization. As global financial liberalization progressed monetary union became the solution to deal with increasing exchange rate instability within the European exchange rate mechanism, itself a byproduct of increasing financial integration.

Monetary union and its fiscal policy component, the SGP, have protected member states from instability and contained the cost of debt for sovereign borrowers up to the global crisis. As long as demand growth was generated outside Europe the system has worked reasonably well, in spite of appreciation pressures on the euro. In the Bretton Woods II period Europe did not contribute to global payment imbalances as its external position was roughly balanced so the problem of financing imbalances did not arise. On aggregate Europe has played neither the role of an hegemon which would finance excess imports through seignoirage, nor the role of a mercantilist economy pursuing a trade surplus. However, as we have seen, this has not prevented from payment imbalances building up within the euro area, as a consequence of diverging trend s in fundamentals. The global crisis is also questioning the sustainability of such imbalances within the euro area. It unveils the fact that monetary union has not been able to prevent for such divergences to develop. In a way the weak external position of the euro eara is itself the reflection the weak internal cohesion of monetary union.

Going back to the global dimension the relevant point is that such a reactive-adaptive attitude vis a vis the international monetary system is not sustainable. The Bretton Woods II system is gone and needs to be replaced with a mechanism that should desirably generate a balanced distribution of world demand while preventing global imbalances from developing and avoiding prolonged misalignments of exchange rates. More specifically, a new system should: 1) provide a credible and robust multilateral insurance system so as to avoid building up of massive stocks of reserves in surplus countries that act as an obstacle to aggregate demand. Such a multilateral system would have to rely on international financial institutions that are stronger in terms of resources and with a better and more balanced governance. Surplus countries, especially emerging economies, will not relinquish their mercantilistic approach to reserve accumulation if they do not trust international institutions and feel ownership of the multilateral system; 2) allow for a gradual and smooth unwinding of the exchange rate misalignments, most notably the dollar/yuan exchange rate, through increased flexibility, structural reforms to address saving investment imbalances, and, where appropriate, through the introduction of new currency agreements (such as currency baskets); 3) promote a long term approach to international investment including through the development of long term investors (such as Sovereign Wealth Funds) through the introduction of financial market reforms as well as market friendly regulation in areas such as competition and corporate governance in both investing and receiving countries.

A reconstruction of the international system along these lines will require the active participation of all relevant actors. The G20 is the new body to deal with these issues. The Framework for Sustainable and Balanced Growth, launched by the G20, is the instrument that should facilitate coordination of national policies first of all by assessing to what extent such policies are mutually consistent or are bound to generate unsustainable imbalances like in the past. A more balanced distribution of demand internationally is, in addition, likely to to increase the level (and rate of growth) of demand by preventing the accumulation of excess reserves and facilitating the expansion of domestic demand in surplus countries, thus mitigating the asymmetry in external adjustment between surplus and deficit countries.

The G20 itself is a golden opportunity for Europe to step up its role and relevance in global governance. Indeed, in addition to implementing the Framework, the G20 agenda includes the reform of the international financial institutions. In both areas Europe could play a key role provided it speaks with one voice. As a player in the Framework it is almost natural that Europe should take one view as what matters here are the external implications of domestic economic policies and, in the case of Europe, domestic cannot mean anything but European. In addition, this is the time for Europe to finally take up a single seat in the IFI, beginning from the IMF, as part of a major governance reform which would also allow emerging economies to hold a voice more appropriate to their economic weight. It is worthy reiterating that, by adopting a single voice, the impact of the EU and of the euro area on global governance would be more effective and the interests of Europe could be served much more effectively.

Long term growth. The supply side

The supply side dimension of global growth in Europe can be summarized in one word: integration. The strategy Europe has adopted from the beginning of its contemporary history has been to spur growth through successive waves of integration, and as secondary strategy, through enlargement. The economic rationale for each integration wave has been different, but, in principle at least, each wave came as a complement and an addition to the previous ones, so that benefits from integration could cumulate.

The formation of Custom Union emphasized the role that adjustment in the tradable sectors towards national comparative advantage could play in boosting productivity and product growth. This phase, which for many European countries implied going through a process of catching-up, was also the one that saw the highest growth rates. (Guerrieri and Padoan 2009)

The Single Market initiative was launched on the assumption that static and dynamic scale economies could be exploited by the formation of a larger economic area. It also implied going beyond tradable sector integration and tackle “deep integration” i.e. integration in sectors and products not necessarily exposed to international markets, most notably service markets.

The Lisbon Strategy was developed on the assumption that knowledge and innovation had become the main drivers of growth in advanced economies as the US experience of the mid 90's seemed to suggest. (Rodrigues 2002)

Last but not least monetary union, in addition to delivering monetary stability, was seen as providing an additional stimulus to growth per se, to the extent that monetary stability could lower the cost of capital and therefore raise investment.

Has this strategy worked? Not so well. Evidence shows both a declining trend in growth rates and a declining contribution to growth of TFP especially in the past decade (Barrell et al 2008) which, on the contrary, should have been increasing if the sources of growth had moved towards a more relevant role of dynamic scale economies and knowledge accumulation.

Does this mean that integration driven growth is reaching its limits? On the contrary. The modest results in terms of growth are due, to a large extent, to the insufficient progress in the process of integration which is slowing down the capacity of Europe to adapt to global demand.

If future growth is to rely increasingly on innovation and knowledge more integration is needed in a number of areas, where integration should be understood as the move from segmented national markets and jurisdictions to a single EU market and, if necessary, jurisdiction. All of these markets, in addition, should be open to non EU space.

The way innovation is developing is radically different from the past: a) innovation is "open" as we see more collaboration along side with competition among innovative actors. b) there is a new geography of innovation, where global dimensions and local linkages interact, often in complex ways to determine innovation based comparative advantage. c) the role of immaterial assets and non technological innovation, is becoming key requiring to go beyond R&D, as investment in many intangibles is rising, and so is the role of services. d) innovation is increasingly based on technological platforms, such as ICT, that are becoming just as important as, or even more important than, "framework conditions", in fostering innovation.

All this requires significant progress in a number of areas. A single market for knowledge should support traditional and new forms of collaborative innovation while providing the right incentives. The lack of a EU patent system and dispute resolution mechanism is there to demonstrate how far behind Europe is in this area. A corollary would be the creation of a single EU market for public procurement, especially in lead markets. Europe needs a single space for education and research based on merit and quality. It is superfluous to recall the key role human capital plays in supporting growth, knowledge creation and diffusion. Last but not least, much more is needed in the creation of a single market for services in several sectors. A single market for services is a key goal on its own right, given the overwhelming share of services in Gdp, and it is key to support knowledge driven growth (Guerrieri et al 2004).

The above does not exhaust the list of areas where the move to a single European economic or policy space is needed, including areas such as energy policy or networks. The point is, however clear. There is much more mileage that needs to be covered in pursuing integration driven growth.

But this is not all. Can Europe adopt an effective green grow strategy? Would this improve the quantity and the quality of growth? Green growth means promoting economic growth and development while reducing pollution and greenhouse gas emissions, minimising waste and inefficient use of natural resources, maintaining biodiversity, and strengthening energy security through less dependence on fossil fuels.

Green growth policies require an integrated strategy that effectively combines economic and environmental policy objectives covering demand and supply aspects, both economy-wide and at sector levels. Green growth could be a golden opportunity for Europe to change both the demand side and the supply side of growth. The first because green growth means changing consumption pattern and hence providing s string boost to domestic demand in Europe. The second because green growth implies a deep technological transformation. Green growth and knowledge driven growth go hand in hand.

The political economy of all this

To deal with the immediate challenges Europe needs to strengthen existing instruments, the SGP in the first place, and quickly develop new ones to deal with possible financial instability events. Allowing for sufficient flexibility while preserving the credibility of fiscal discipline in a very unfavourable environment. This will be challenging and will require political leadership and cohesion among governments. If we are moderately optimistic we can expect that at least part of the drive to stronger collaboration sparked off by the global crisis will not be lost and will sufficient be to obtain this result. The need to test the euro in hard times of low growth and mounting debt and the risk of negative externalities sparked off by single country fiscal difficulties could generate the political drive. The reaction of EU institutions to the Greek crisis shows that such cooperation can be harnessed but it remains to be seen if it will exploit the opportunity of the crisis to move towards institutional upgrade.

Looking at structural growth policies we can be even less optimistic with respect to the implementation of a revamped growth strategy. Europe 2020 shows that Europe can design have a comprehensive growth strategy for the new decade that builds upon its tradition. Implementation however has to do with another dimension: the political economy of integration and growth. In brief, the question is: will European countries take the steps necessary to establish a single representation in international fora, complete the processes of integration in the several areas that still need it.

In the traditional integration language these are challenges that have to do with deepening rather than widening. This would signal a change in the nature of the integration process with respect to the more recent past, that has been characterized by an emphasis on widening through the successive waves of enlargements, especially after the fall of the Berlin war. Can Europe redirect its integration process to take this into account?

The political economy of widening is less problematic than the political economy of deepening. Widening is about club formation. It is about establishing the "optimal" number of club members. that have access to a "club good" i.e. a collective good (such as a common rule or agreement) that can be produced and consumed only by the members of the club (Padoan 2007). As the number of members increases the marginal benefits of the club decrease as congestion increases and the addition of resources associated to one additional member does not compensate them. At the same time marginal costs increase as management becomes more difficult. So when marginal benefits and marginal costs are equal there is no incentive to further widening. This can be obtained, for example if new governance rules are introduced (like a new treaty) that decrease management costs. However the introduction of new management rules is about deepening. Beyond some point further widening is not possible without further deepening.

Deepening is about defining a common policy. The success cases include trade policy, competition policy, monetary policy. Developing a growth model along the lines discussed above requires a common research policy, education policy, energy policy, external economic and financial policy. Leaving many areas to national jurisdictions is hardly going to produce a common policy. The half success (or half failure) of the liberalization of services shows that resistance of vested interests (be they business groups, trade unions, or others) is able to capture the policy of national governments and use them as instruments to resist further barrier elimination and integration. As Olson (1982) has shown the ability of special interest groups to resist pressure that would erode their rent seeking capability increases over time as institutions grow more complex and stratified. This is the case of Europe. Decades of integration have also increased the size and capacity to resist of special interest while, at the same time, weakening the ability of leaders to overcome such resistance in the name of broader national and European goals. Olson also explains that one of the advantages of major crises (including wars) is that they destroy or weaken significantly existing special interest leaving space for new more dynamic groups and leaders that see benefit from eroding rent positions. In short, progress towards further deepening in Europe is hindered by the Olson problem.

But this is not all. A more integrated single market requires further integration at the macroeconomic level including stronger crisis prevention mechanisms. We have argued above that, to strengthen the global demand environment, the euro area should speak with a single voice in international institutions. Another political economy problem arises here. A single voice in global governance requires not only a single seat in international financial institutions but also much closer coordination in fiscal policy. In both cases national sovereignty must, in part at least, be transferred to a supranational level. In collective actions terms this implies reaching a cooperative agreement for the production of a collective good. As we know from the theory of international regimes (see Padoan 2007 for a survey) in the absence of an hegemon, cooperation among several players can be achieved if specific conditions hold. Such conditions include: the number of actors must be small, all relevant actors must have a long time horizon and must be willing to adjust their preferences. Not all these conditions are met today. Even if we limit ourselves on the euro membership the number of countries is not small. The length of the time horizon facing policy makers in most cases hardly goes beyond the election cycle. Adjusting preferences implies adjusting policy priorities in favour of more European integration. This runs against the same difficulties that stand in the way of further deepening as discussed above. This view may be overly pessimistic, especially if one reflects on the fact the creation of the euro has also led to the creation of a supranational institutions such as the Bce. However, let us not forget that two factors proved key to achieve this remarkable and unique step forward: the failure to achieve monetary stability by a combination of fixed exchange rates and full capital mobility as exemplified by the collapse of the European Monetary System, and German unification. In other words a major economic shock and a major political shock were needed to overcome integration fatigue in Europe. Apparently, the economic shock represented by the most severe recession of the post war period has not been enough to produce a further step forward of similar significance and impact.

Conclusions

The global economy in the post recession world will pose significant challenges to Europe. Debt will be higher, potential output will be lower, both adding to already problematic fiscal sustainability and structurally low growth. The Greek debt crisis has highlighted weaknesses in the euro area architecture (and beyond). The unsettled issue of global payment imbalances, which may rise again as the recession fades away, does not bode well for a more sustained world demand and for Europe in particular. The strategies to deal with such challenges are clear and largely uncontroversial. Reinforce the single market through structural reforms and deeper integration to facilitate knowledge driven growth to raise output and employment. The Europe 2020 agenda goes in this direction. From the global demand side Europe needs a single and more forceful voice in international financial relations as a necessary (if not sufficient)

condition for a more balanced (and possibly sustained) world growth. Europe also needs to reinforce internal economic governance through a more robust and forward looking stability and growth pact and develop a credible crisis prevention and resolution mechanism within the euro area.
I am skeptical that such moves will proceed with the needed energy and speed. My skepticism is rooted in the political economy that should guide such changes. Further deepening of the internal market is likely to be resisted by special interest groups that have increased their capacity to block change and protect their rent positions. Paradoxically, in line with Mancur Olson's predictions, the very success of European integration, that has led to several layers of institutional build up, is likely to strengthen such resistance. As for the move towards a stronger and more proactive voice of Europe in the global arena this would require a decisive action by member countries to produce a new collective good. Progress here would require conditions for cooperation among sovereign countries that do not seem to be available. The establishment of the euro and of the Ecb may remain a unique episode that has been the result of exceptional circumstances.

As we all know crises are opportunities for change. Over the recent past Europe has been facing the global financial and economic crisis and the (at the time of writing still ongoing) Greek crisis. Is this not enough?

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