

The 2018 European economy: A hymn to reform

By [Jérôme Creel](#)

The OFCE has just published the [2018 European Economy](#) [in French]. The book provides an assessment of the European Union (EU) following a period of sharp political tension but in an improving economic climate that should be conducive to reform, before the process of the UK's separation from the EU takes place.

Many economic and political issues crucial to better understanding the future of the EU are summarized in the book: the history of EU integration and the risks of disintegration; the recent improvement in its economic situation; the economic, political and financial stakes involved in Brexit; the state of labour mobility within the Union; its climate policy; the representativeness of European institutions; and the reform of EU economic governance, both budgetary and monetary.

The year 2018 is a pivotal year prior to the elections to the European Parliament in spring 2019, but also before the 20th anniversary of the euro on 1 January 2019. The question of the euro's performance will be central. However, in 2018 gross domestic product will finally begin to increase at well above its pre-crisis level, thanks to renewed business investment and the support of monetary policy, henceforth unhindered by fiscal policy.

The year 2018 will also mark the beginning of negotiations on the future economic and financial relationship of the United Kingdom and the EU, after at end 2017 the two parties found common ground on arrangements for the UK leaving the Union. The EU's renewed growth will reduce the potential costs of the

divorce with the British and could also lessen Europeans' interest in this issue.

Brexit could have served as a catalyst for reforming Europe; the fact that the mechanisms for this may now seem less crucial to the EU's future functioning should not take away from the reforms needed by the EU, as if these were superfluous. In the political and monetary fields, there is a great need to strengthen the democratic representativeness of EU institutions (parliament, central bank) and to ensure the euro's legitimacy. In the fields of fiscal and immigration policy, past experience has demonstrated the need for coordinated tools to better manage future economic and financial crises.

There is therefore an urgent need to revitalize a project that is over sixty years old, one that has managed to ensure peace and prosperity in Europe, but which lacks flexibility in the face of the unpredictable (crises), which lacks vigour in the face of the imperatives of the ecological transition, and which is singularly lacking in creativity to strengthen the convergences within it.

The euro zone: A general recovery

By [Christophe Blot](#)

This text is based on the 2017-2019 outlook for the global economy and the euro zone, a full version of which is available [here](#).

The euro zone has returned to growth since mid-2013, after having experienced two crises (the financial crisis and the sovereign debt crisis) that led to two recessions: in 2008-2009 and 2011-2013. According to [Eurostat](#), growth accelerated during the third quarter of 2017 and reached 2.6% year-on-year (0.6% quarter-on-quarter), its highest level since the first quarter of 2011 (2.9%). Beyond the performance of the euro zone as a whole, the current situation is marked by the generalization of the recovery to all the euro zone countries, which was not the case in the previous phase of recovery in 2010-2011. Fears about the sustainability of the debt of the so-called peripheral countries were already being reflected in a sharp fall in GDP in Greece and the gradual slide into recession of Portugal, Spain and a little later Italy.

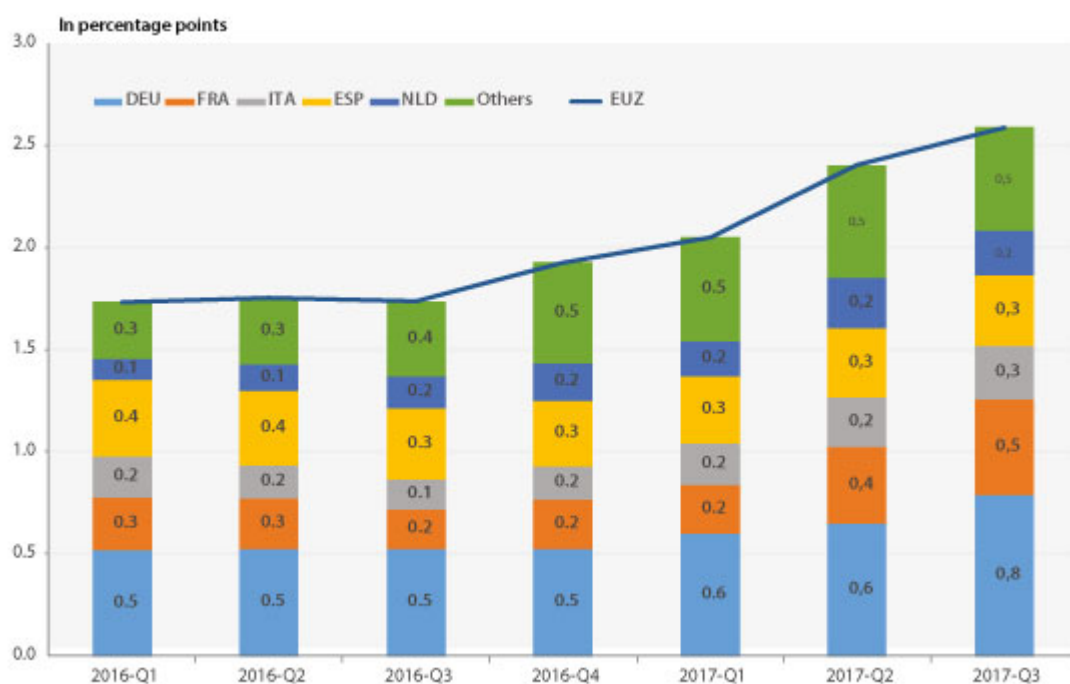
Today, while Germany remains the main engine of European growth, all of the countries are contributing to the accelerating recovery. In the third quarter of 2017, Germany's contribution to euro zone growth was 0.8 point, a faster pace than in the previous two quarters, reflecting the vitality of the German economy (see the Figure). However, this contribution was even greater in the first quarter of 2011 (1.5 points for growth of 2.9% year-on-year). This catching-up trend is continuing in Spain, which in the third quarter of 2017 had quarterly growth of 3.1% year-on-year (0.8% quarter-on-quarter), making a 0.3 point contribution to the euro zone's overall growth. Above all, activity is accelerating in the countries that up to now had been left a little bit out of the recovery, particularly in France and Italy, which contributed respectively 0.5 and 0.3 points to the growth of the zone over the third quarter^[1]. Finally, the recovery is taking root in Portugal and Greece.

This renewed dynamism of the European economy is due to several factors. Monetary policy is still very expansionary, and the securities purchases being carried out by the

Eurosysteem help to keep interest rates low. Credit conditions are favourable for investment, and the access to credit for SMEs is being loosened up, especially in the countries that were hit hardest by the crisis. Finally, fiscal policy is generally neutral or even slightly expansionary.

The current optimism must not nevertheless hide the scars left by the crisis. The euro zone unemployment rate is still higher than its pre-crisis level: 9% against 7.3% at the end of 2007. The level still exceeds 10% of the active population in Italy, 15% in Spain and 20% in Greece. The social consequences of the crisis are therefore still very visible. These conditions justify the need to continue to support growth, particularly in these countries.

Figure. The contributions to growth in the euro zone



Source: Eurostat.

The European economy in 2017 – or, the post-Brexit EU

By [Jérôme Creel](#)

The just released [L'économie européenne 2017](#) provides a broad overview of the issues being posed today by the European Union project. Brexit, migration, imbalances, inequality, economic rules that are at once rigid and flexible... the EU remains an enigma. Today it gives the impression of having lost the thread of its own history or to even to be going against History, such as the recent international financial crisis or in earlier times the Great Depression.

A few months after the bankruptcy of Lehman Brothers, the G-20 Summit of the heads of State and Government held in London in April 2009 drew up a list of recommendations to revive the global economy. These included implementing active fiscal and monetary policies, supporting the banks and improving banking regulation, rejecting the temptation of protectionism, fighting against inequality and poverty, and promoting sustainable development.

These recommendations were in contrast to the policies implemented shortly after the Great Depression back in the 1930s. At that time, economic policies started with restrictive measures, thereby fueling the crisis and rising inequality. Protectionism in that epoch became not just a temptation but a reality: tariff and non-tariff barriers were erected in an effort to protect local business from international competition. We know what happened later: the rise of populism and extremism that plunged Europe, and then the world, into a terrible war. The economic lessons learned from the catastrophic management of the 1930s crisis thus contributed to the recommendations of the London G-20 Summit.

What now remains of these lessons in Europe? Little, ultimately, other than a resolutely expansionary monetary policy and the establishment of a banking union. The first is meant to alleviate the current crisis, while the second is intended to prevent a banking crisis in Europe. While this is of course not nothing, it is based on a single institution, the European Central Bank, and is far from sufficient to answer all the difficulties hitting Europe.

Brexit is one of these: as the first case of European disintegration, the departure of the United Kingdom poses the issue of the terms of its future partnership with the European Union (EU) and re-raises the question of protectionism between European states. The temptation to turn inwards is also evident in the way that the refugee crisis has been managed, which calls for the values of solidarity that have long characterized the EU. Differences between EU Member States in terms of inequality, competitiveness and the functioning of labour markets require differentiated and coordinated policies between the Member States rather than the all-too homogeneous policies adopted up to now, which fail to take an overall view.

This is particularly true of the policies aimed at reducing trade imbalances and those aimed at cutting public debts. By applying fiscal rules to manage the managing public finances, even if these are not perfectly respected, and by imposing quantitative criteria to deal with economic and social imbalances, we lose sight of the interdependencies between the Member States: fiscal austerity is also affecting our partners, as is the search for better price competitiveness. Is this useful and reasonable in a European Union that is soon to be the EU-27, which is seeing rising inequalities and struggling to find a way to promote long-term growth?

L'économie européenne 2017 takes stock of the European Union in a period of severe tensions and great uncertainty, following a year of average growth and before the process of

separation between the EU and the UK really begins. During this period, several key elections in Europe will also serve as stress tests for the EU: less, more or better Europe – it will be necessary to choose.