

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.

The G20 Summit in Cannes: Chronicle of a Disappointment Foretold?

By [Jérôme Creel](#) and [Francesco Saraceno](#)

Too long and too technical, the [final declaration](#) of collective action of the G20 Summit in Cannes shows that no clear and shared vision of the economic and financial turmoil that is rocking the global economy has emerged at the Summit. And as Seneca reminds us, the disappointment would have been less painful if success had not been promised in advance.

According to the official announcements, the disappointment was palpable at the end of a G20 summit in which no significant progress was achieved – on the most important issues of the moment, the revival of growth in particular. The crucial issues of agriculture and finance gave rise simply to declarations of intent, with a reminder of the commitments made on these ... in 2008! The disappointment must be kept in perspective, however, as the G20 is primarily a forum for discussion rather than for decisions. Indeed, what remains of the commitments made in April 2009 by the G20 in London, mired in global recession? The expansionary fiscal policies? Forgotten, as a result of the public debt that they have

produced – debt, by the way, that was perfectly predictable. Strengthened financial regulation? Repeatedly trotted out, but still not implemented, despite the determination displayed in Paris on 14 and 15 October 2011. The desire to avoid protectionism? Barely mentioned, nor did this succeed in preventing the outbreak of 36 [trade disputes](#) brought before the WTO, including 14 involving China, the EU and / or the United States. All that remains is a monetary policy that is “expansionary as long as necessary”, in the words of the pre-Summit statements. So does the fate of the international monetary system depend simply on the good will of the central bankers, independent as they are?

The meeting was also troubled by the crisis hitting the euro zone, which virtually forced off the agenda such important issues as the resurgence of protectionism, which was relegated to paragraphs 65 to 68 of a 95-paragraph document. At Cannes, the emerging economies and the US were spectators of a drama unfolding between Paris, Berlin, Rome and Athens.

The crisis hitting the euro zone is a result of the heterogeneity of its constituent countries, much as the financial crisis triggered in 2007 was a result not just of a lack of financial regulation but also of the increasing heterogeneity between mercantile countries and countries presumed to be the El Dorados of investment, on the one hand China and Germany, and on the other, the United States and Ireland. This European heterogeneity, one of four deficiencies of the euro zone, has led countries with a surplus in their current accounts to finance countries running a deficit. Alone, and with its priority on the fight against inflation imposed by the Treaty of the EU, the ECB is unable to promote convergence within the euro zone. However, in the short term it can end the crisis in the euro by agreeing to provide full coverage of public debts in the euro zone (see [\[1\]](#), [\[2\]](#) or [\[3\]](#)), and by significantly increasing its [purchases of government debt in Europe](#). This would maintain

European financial stability and perhaps generate inflationary expectations, thereby helping to lift Europe's economy out of the [liquidity trap](#) in which it has been mired since the beginning of the financial crisis. Note that despite its activism, the US Federal Reserve has not so far managed to create such expectations and remains caught in the same kind of liquidity trap.

In the longer term, it is necessary to review European economic governance. The active use of economic policy in the United States and China contrasts with the caution displayed by the ECB and with the European reluctance to pursue expansionary fiscal policies, and more generally with the decision to build European economic governance on a refusal of discretionary policies. It would be desirable for the ECB, while preserving its independence, to be able to pursue a [dual mandate](#) on inflation and growth, and for the [rules that discipline](#) fiscal policy to be "smarter" and more flexible.

Giving the economic policy authorities an opportunity to implement discretionary policies should not mean forgetting about the risks posed by the absence of a coordinated approach, which may lead the US Congress to threaten unilateral compensatory taxes on goods imported from countries whose currency is undervalued. This move is evoking the specter of protectionism, and the G20 countries should consider a mechanism to coordinate policy so as to avoid the trade wars that are already being more or less explicitly declared.

Furthermore, a currency war does not seem to be an effective way to protect our economies: the under-or overvaluation of a currency is a complex concept to apply, and the impact of a currency's value on exports and imports is made very uncertain by the international fragmentation that characterizes the production of goods and services. Rather than employing a defensive policy, it is definitely better to substitute an [active industrial policy](#) to take advantage of new

technological niches that create business and jobs.

Finally, for words to have real meaning – to “build confidence and support growth” in the advanced economies and “support growth” while “containing inflationary pressures” in the emerging economies ([G20 Communiqué](#), Paris, 14-15 October 2011) – we must challenge the “contagion of [fiscal contraction](#)” that is now shaking the euro area and, rather than an additional phase of rigor, put recovery plans on the agenda in the advanced economies while interest rates are still low. These plans must be targeted in order to generate growth and not jeopardize the solvency of public finances: it is thus necessary to encourage public investment. To maximize their overall impact, these plans need to be coordinated, including with the actions of the central banks, so that the latter can support them by maintaining low interest rates. The Summit in November 2011 was very timely for this kind of coordinated approach to emerge. Unfortunately, it didn't.