

Our European Problems

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Triangle of our problems

**Unemployment and growth
in the short-run**

- inequality
- European support

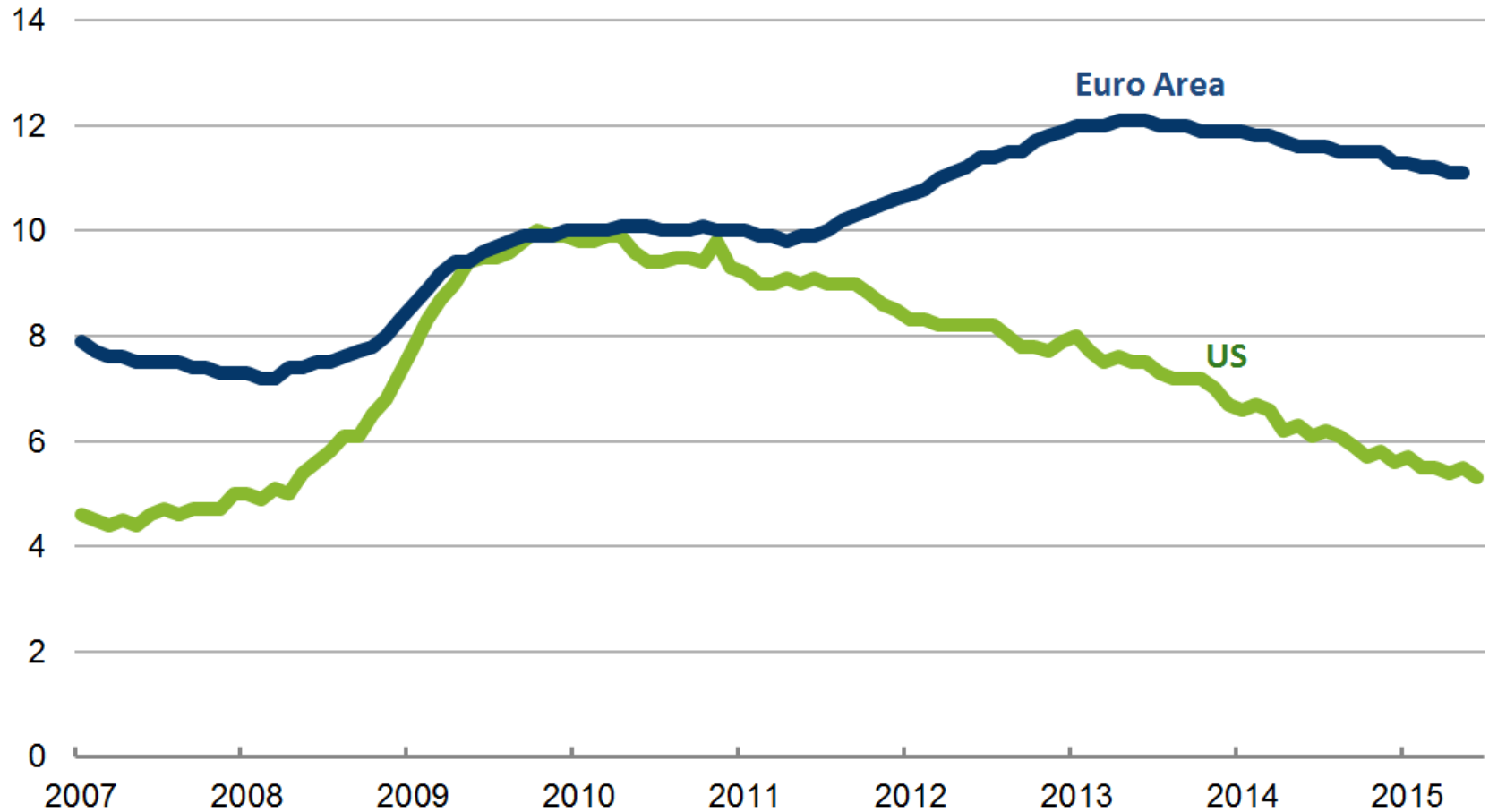
**Nominal
Divergences**

- Nominal
- Real

Public debt

Banking problem (NPL)

Figure 1: Unemployment Rates (%)

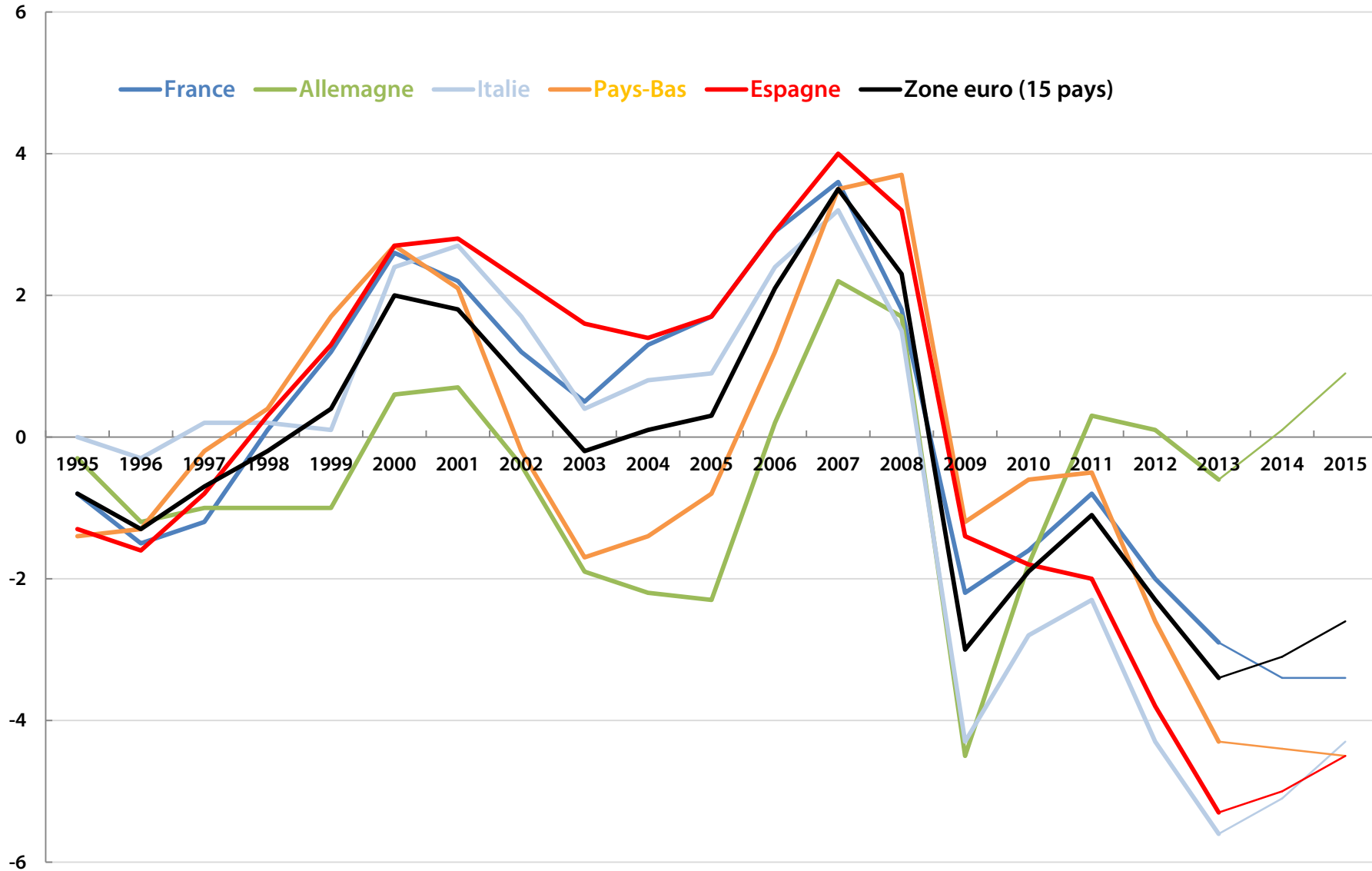


Sources: BLS and Eurostat

BROOKINGS

The Demand Problem. Output gap en zone euro

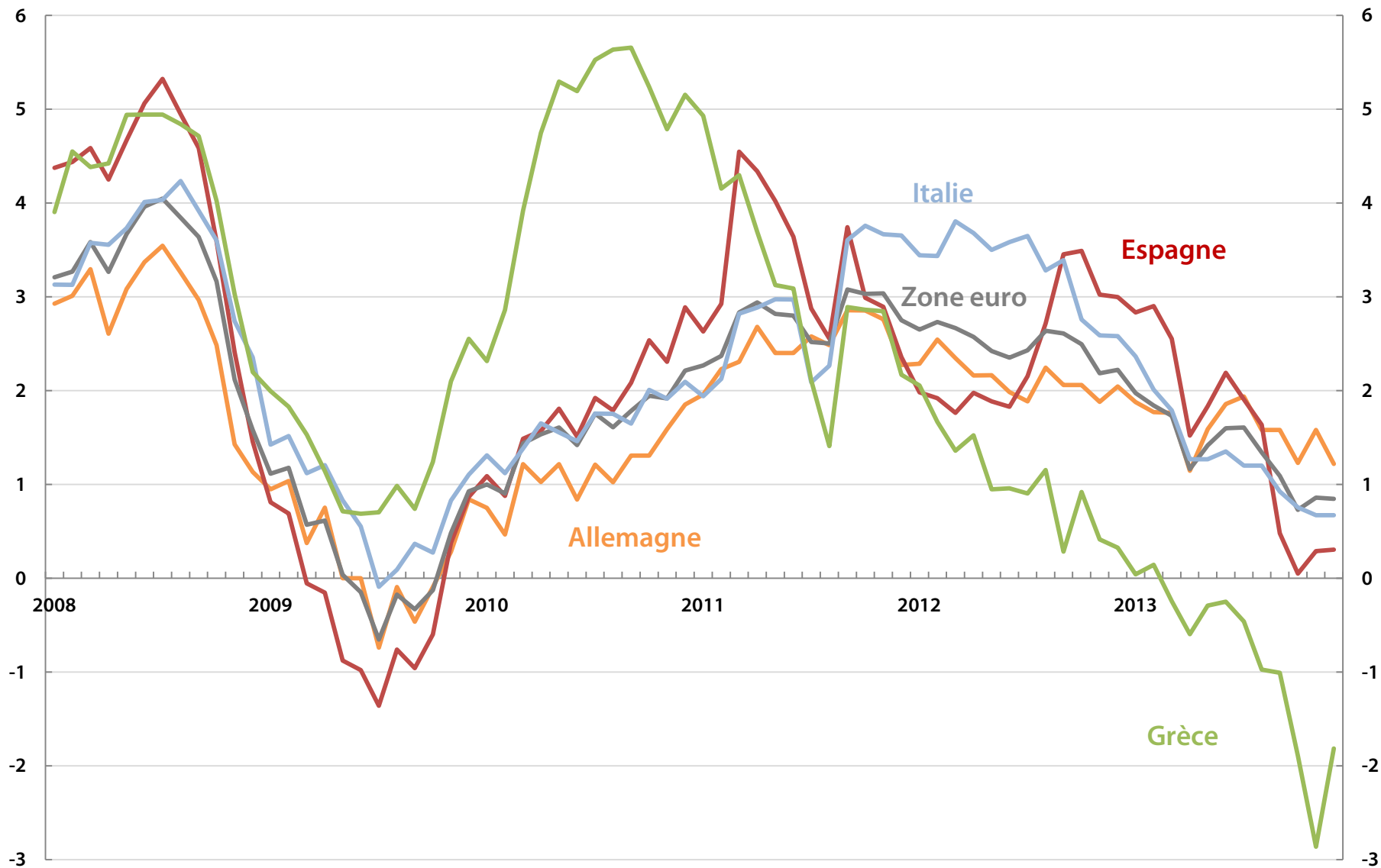
Percentage of GDP



Source : OCDE

The Demand Problem. Inflation

En glissement annuel, en %



Source : Eurostat

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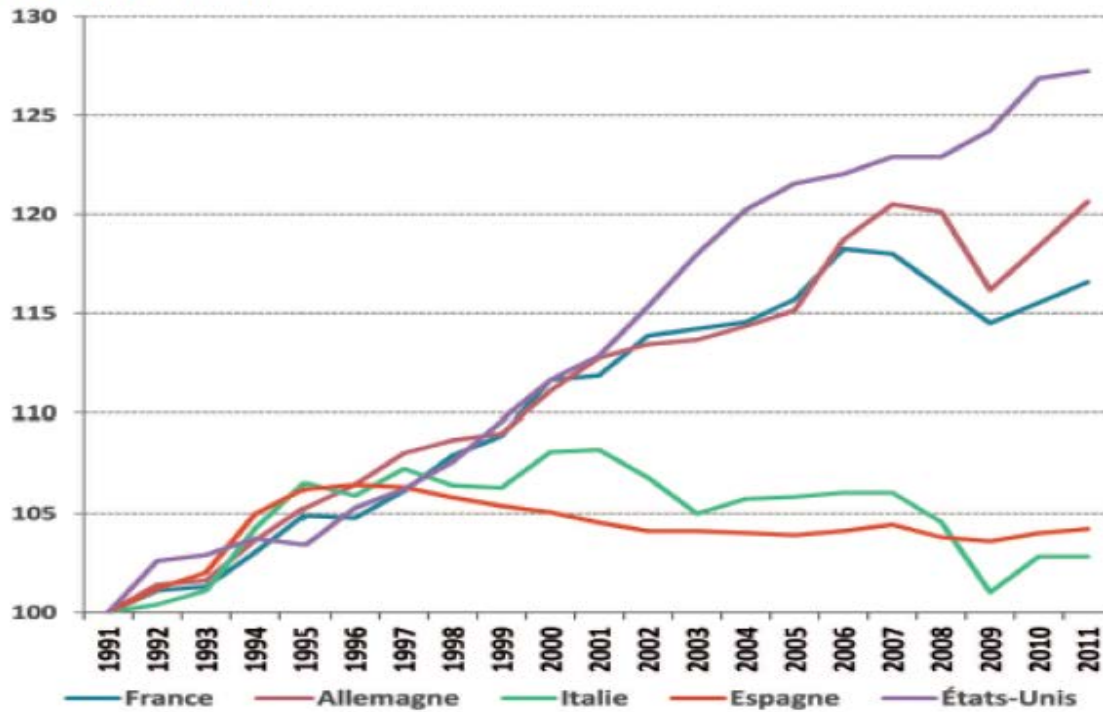
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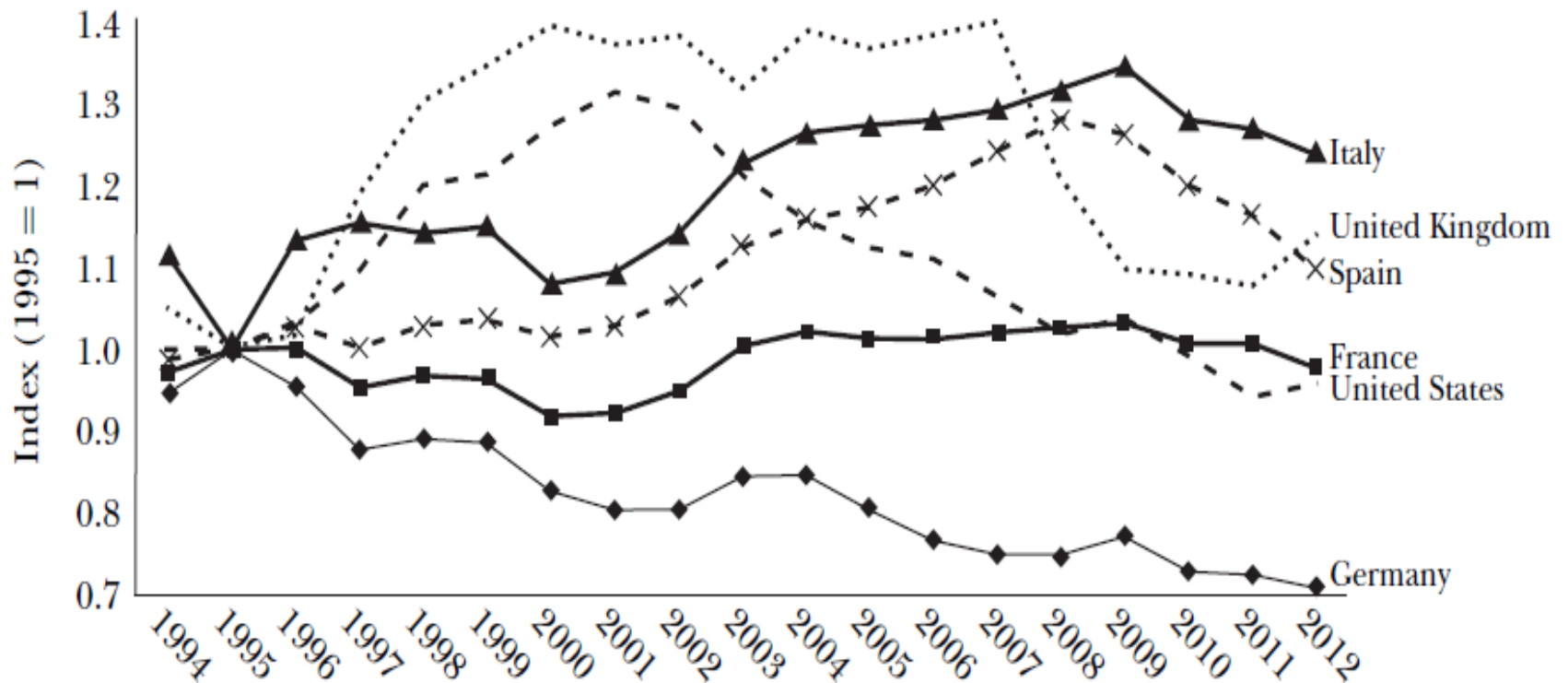
PRODUCTIVITÉ GLOBALE DES FACTEURS ENSEMBLE DE L'ÉCONOMIE

Base 100 = 1991



Source : OCDE.

Supply : Weighted Unit Labor Cost



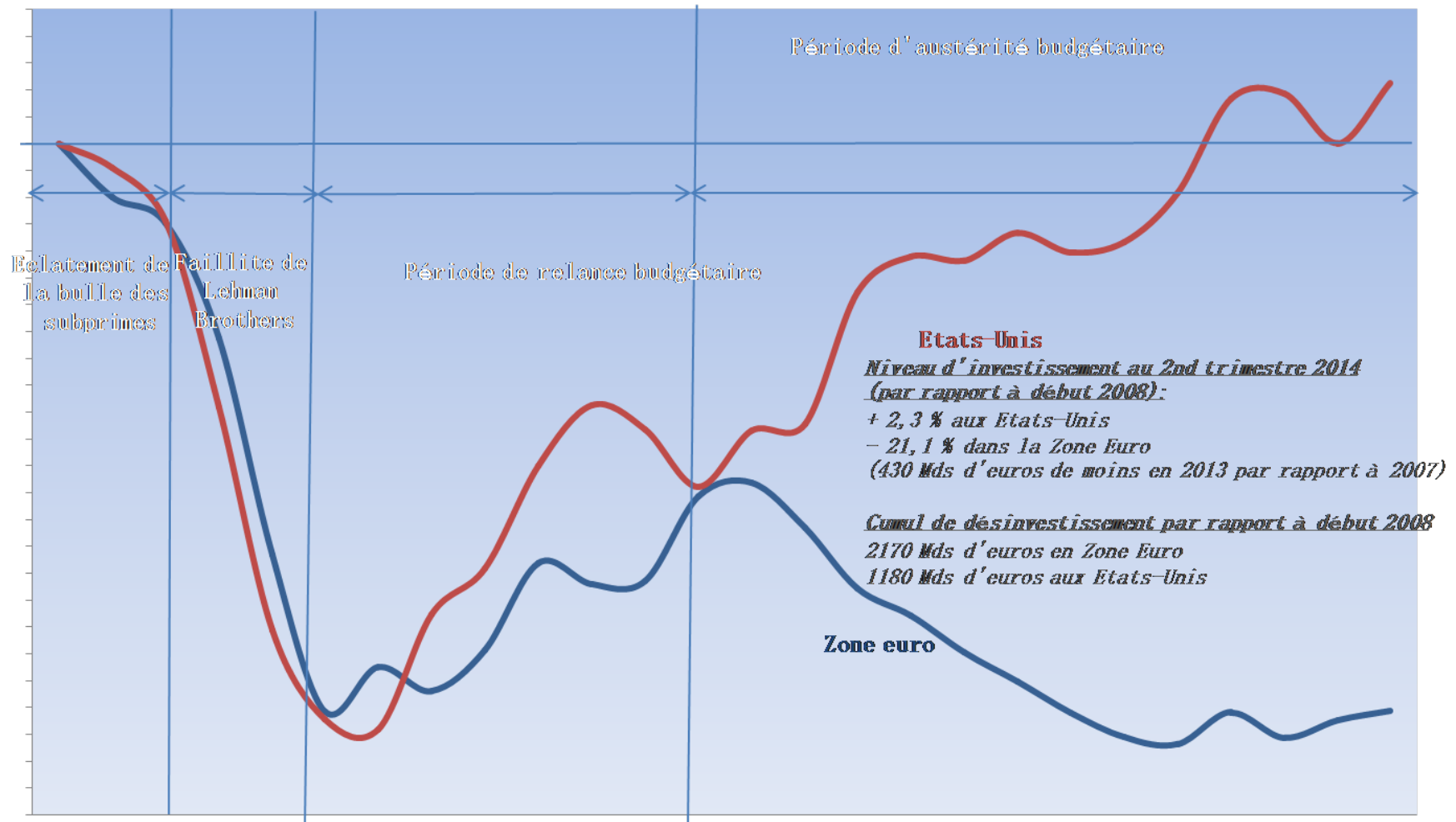
Source : Dustmann, Fitzenberger, Schönberg, et Spitz-Oener (2014)

Necessary adjustments... The internal devaluation

| Horizon | 10 years | 20 years | 50 years | Infinite |
|--------------------|----------|----------|----------|----------|
| Austria | +14.2% | +14.9% | +15.3% | +15.5% |
| Belgium | -16.9% | -16.1% | -15.6% | -15.3% |
| Finland | -15.5% | -14.3% | -13.7% | -13.3% |
| France | -4.3% | -4.5% | -4.7% | -4.7% |
| Germany | +21.8% | +21.8% | +21.8% | +21.8% |
| Greece | -43.7% | -13.7% | +4.3% | +14.8% |
| Ireland | -0.8% | +5.6% | +9.4% | +11.4% |
| Italy | +5.7% | +5.8% | +5.8% | +5.9% |
| Netherlands | +19.1% | +19.5% | +19.7% | +19.8% |
| Portugal | -17.4% | -3.2% | +5.3% | +10.1% |
| Spain | -5.4% | +2.9% | +7.9% | +10.6% |

Source: iAGS, preliminary

Supply : Investment in the US and Euro area (2008= 100)



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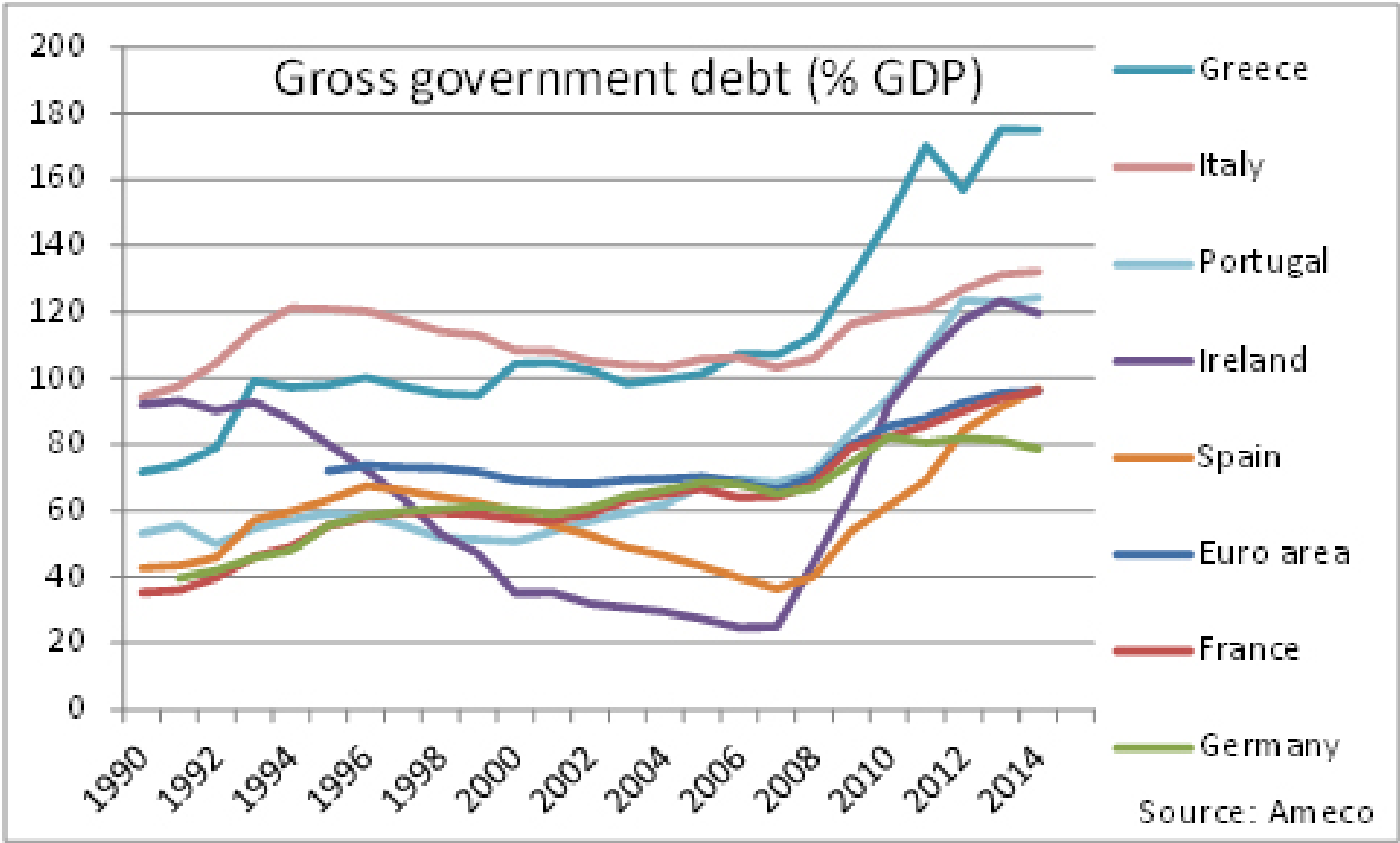
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France

Geneva Group

Germany

Nominal Divergences

- Nominal
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Public debt

Restructuring?

How to converge?

■ Key Questions :

- Frontier of the Euro : keep Greece in
- Commitment for a smooth fiscal consolidation : “trust”
- Managed transfers

■ Solution 1 : Wait and See

- Implement fiscal discipline
- Let political forces reshape Europe and Euro zone

■ Solution 2 : Debt at the European level:

- European unemployment insurance (1 or 2% of GDP) (Benassy-Quere and Ragot, CAE 2015)
- Public investment
 - Nominal convergence : controlled price and wage dynamics
 - Debt convergence (slow)
- Parliament for the Euro area : legislative power
- Change in the European semester for coordination (Benassy-Quere and Ragot, CAE 2015)