

ONE EUROPE OR SEVERAL? CAUSES AND CONSEQUENCES OF THE EUROPEAN STAGNATION

Jan Fagerberg, Ålborg University, University of Oslo, &
University of Lund, www.jan.fagerberg.org

Bart Verspagen, UNU-MERIT, University of Maastricht

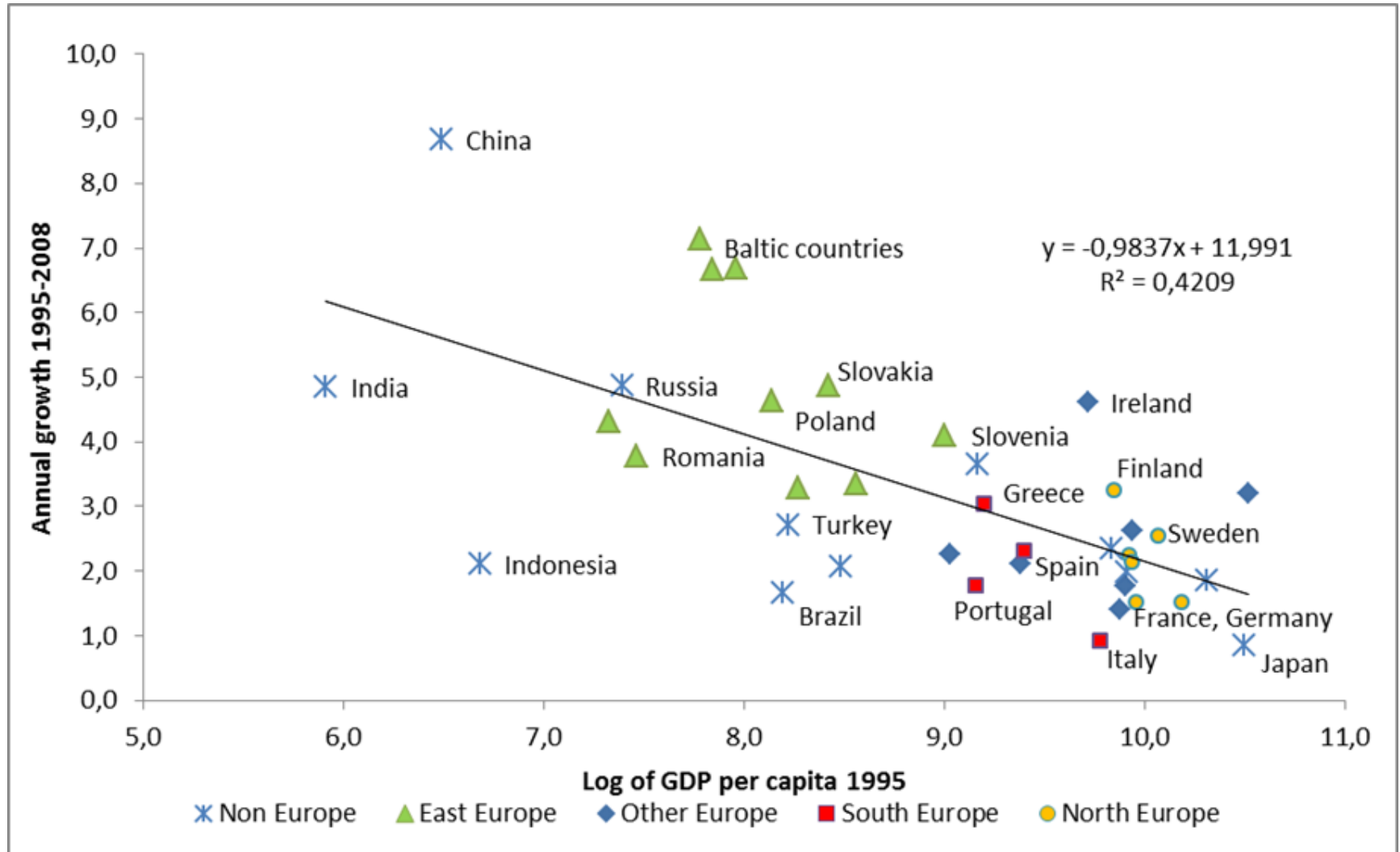
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Aims and background

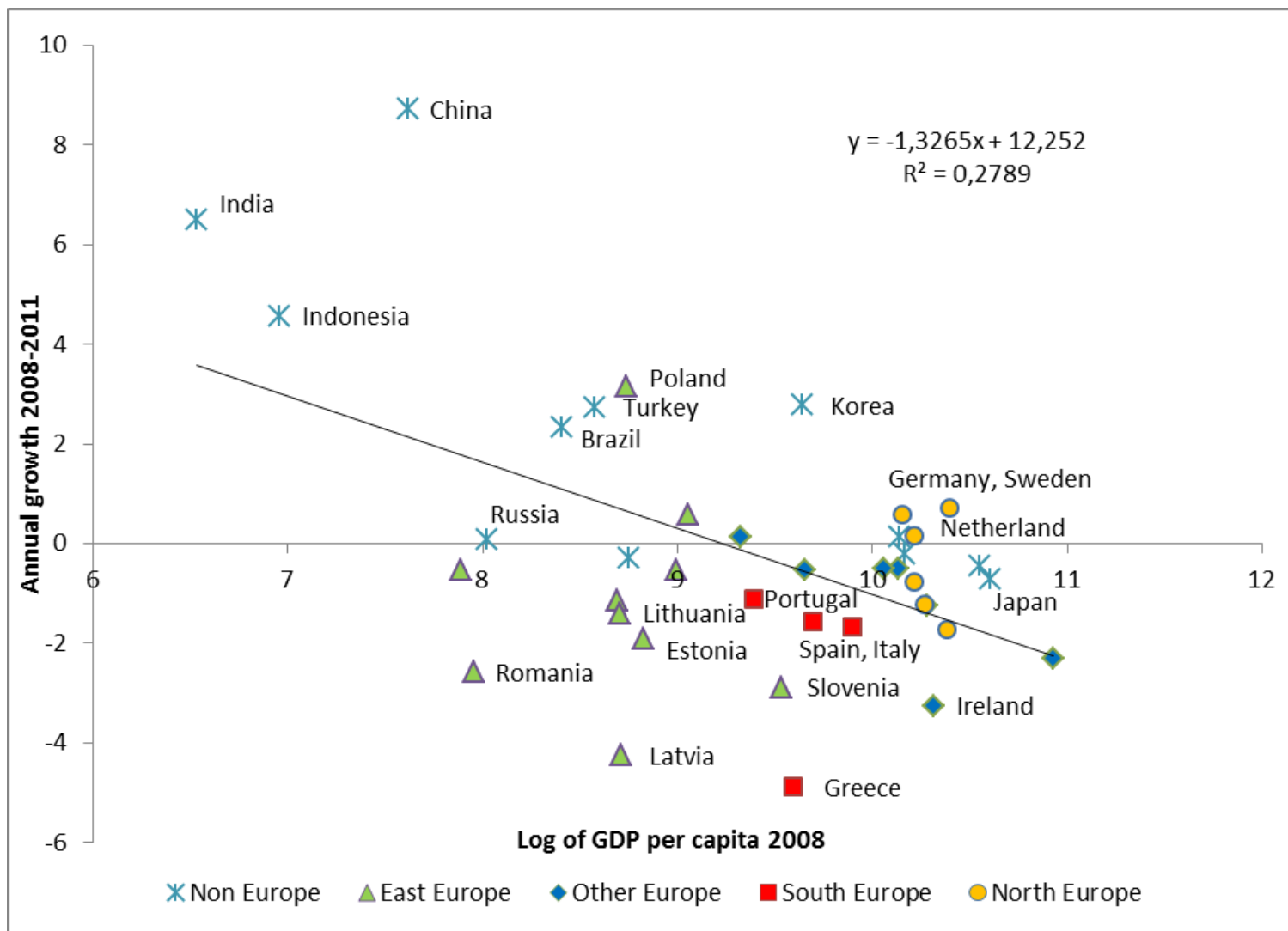
- The global economy: From “**lost decade for development**” in the 80’s to “**catch-up boom**” in the 2000s.
- Europe: Dismantling of the **Soviet empire**, unleashing of talent and resources, rapid growth/catch-up in **Eastern Europe** from the 90’s onwards
- Result: **A dynamic Europe**: Economic integration, enlargement, deepening (internal market, EURO), but
- The **financial crisis 2008** unleashes the **European Stagnation. Why?** And why does it **linger on?**
- Is it simply the unavoidable consequences of a “**Spending Spree**”? Or are there **deeper reasons?**
- This is the theme of this paper, which mainly focuses on **the period leading up to the crisis**

Growth of GDP per capita 1995-2008



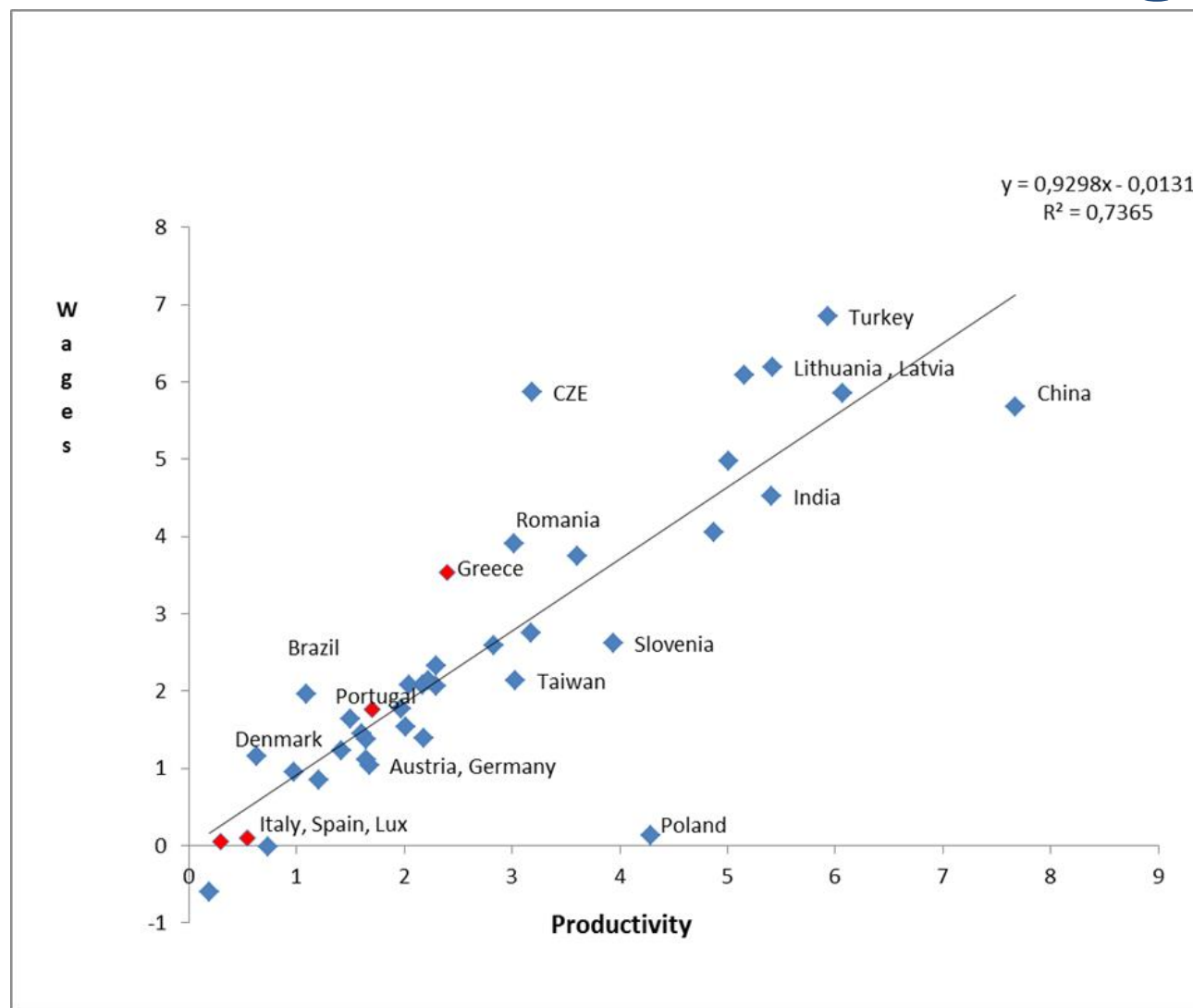
Data Source: World Bank

Growth of GDP per capita 2008-2011



Data Source: World Bank

Problem due to excessive wage growth?

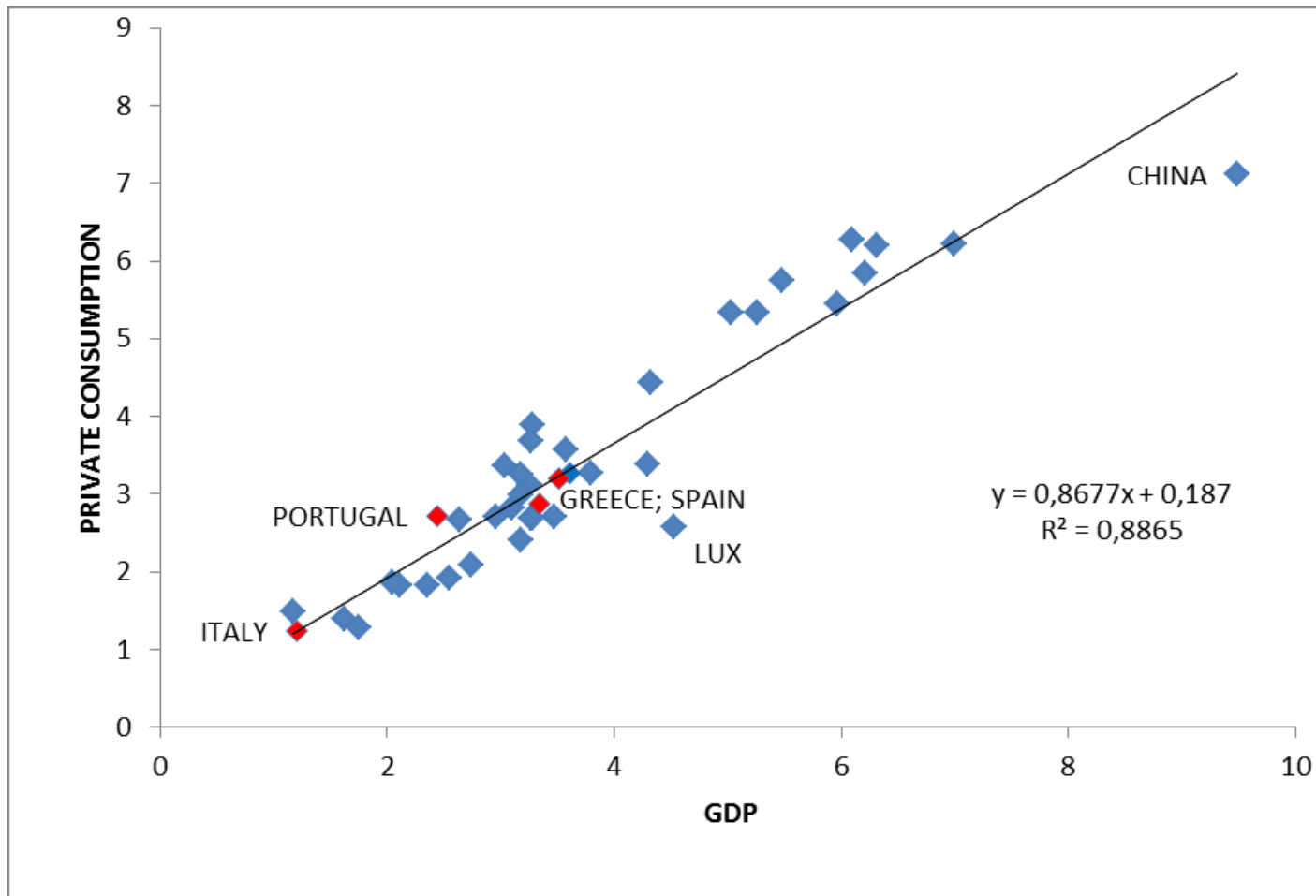


**Not really:
Growth of
Wages and
Productivity,
1995-2008**

**Source: WIOD
(World Input-Output
Data Base)**

Spending spree? Growth of Private Consumption and GDP, 1995-2008

Source: WIOD

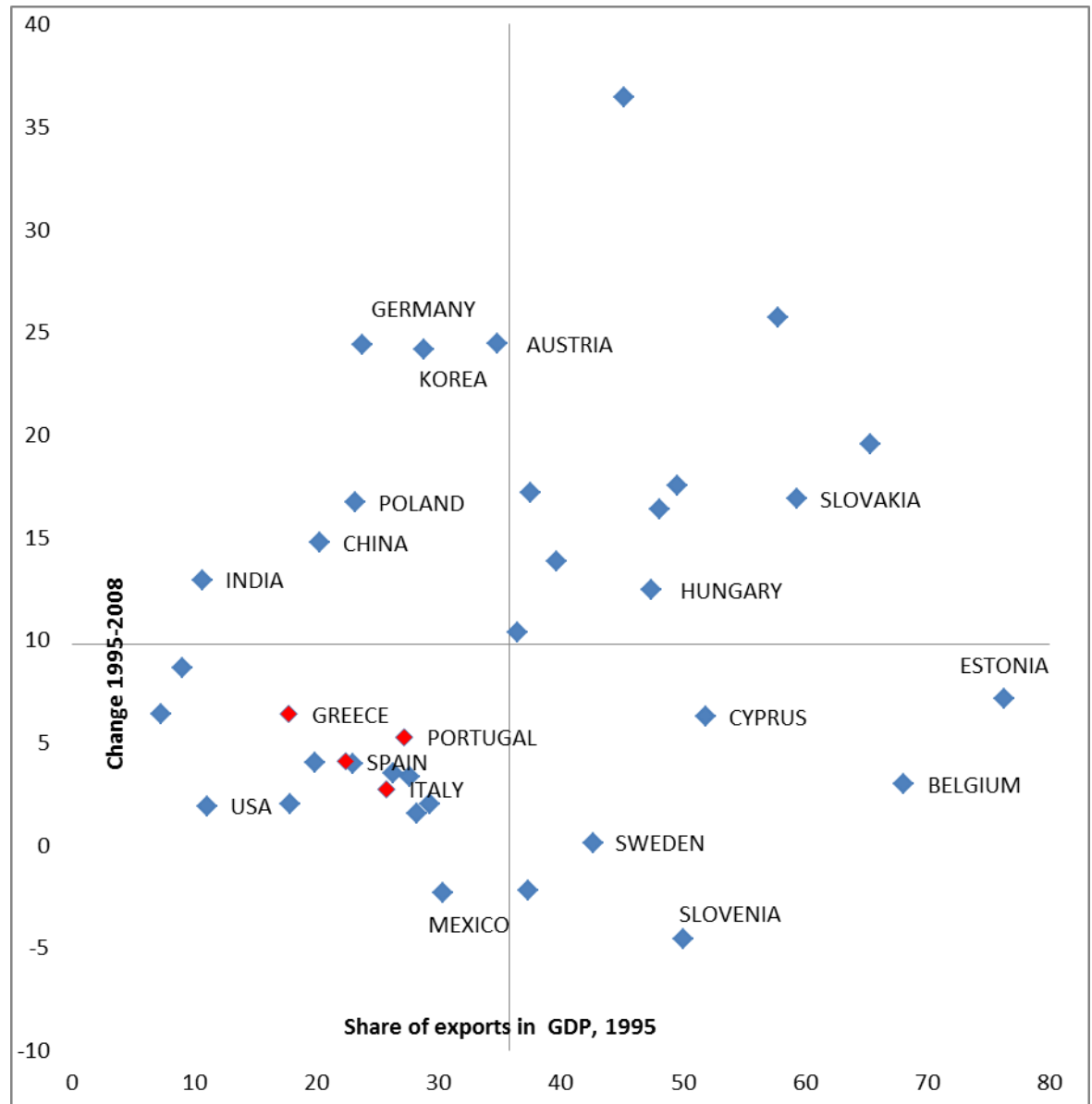


The same holds for public& consumption, investment etc

One big difference though:

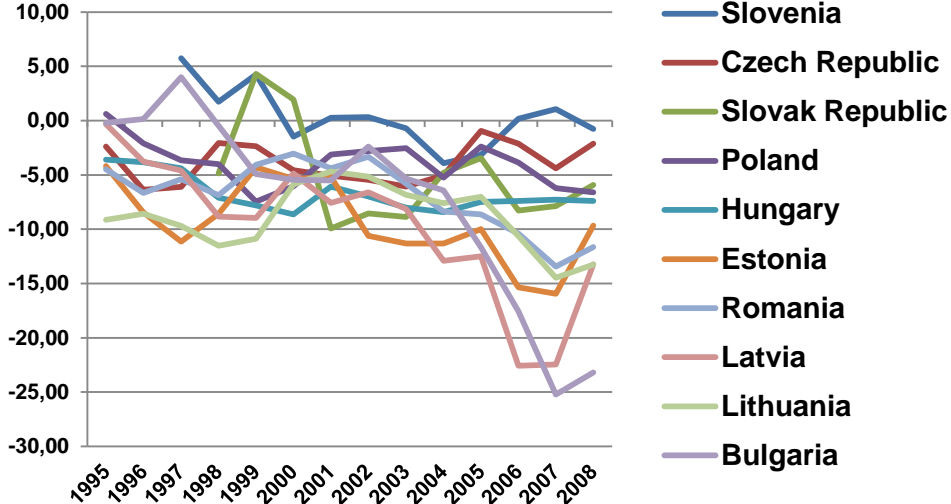
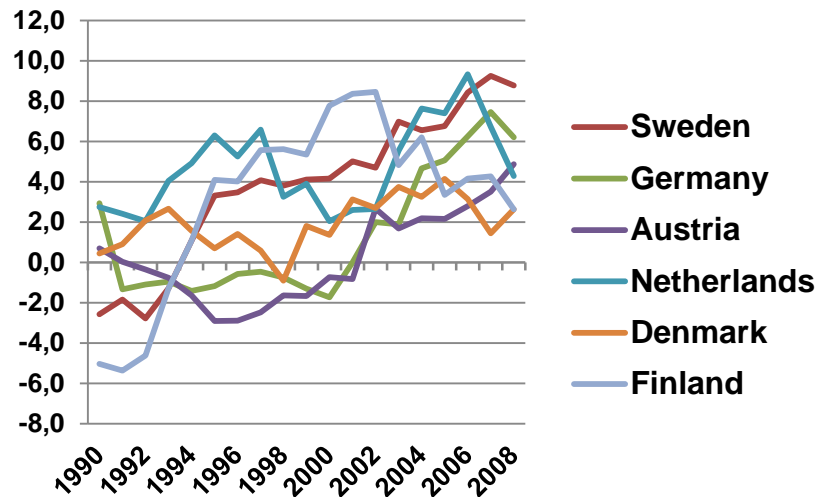
Exports as a share of GDP level versus change, 1995-2008

Source: World Bank



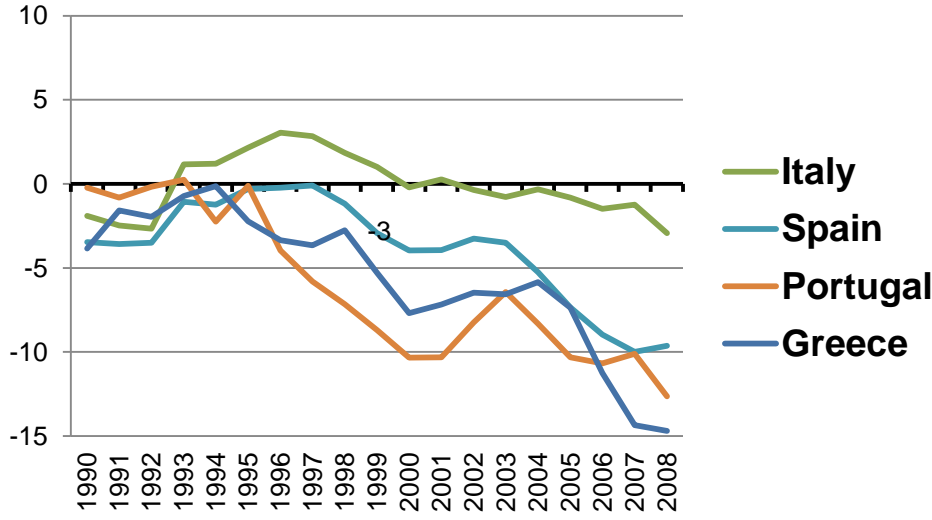
Southern Europe: Left behind in the globalization race

External imbalances emerge: North, East & South



The North

The East

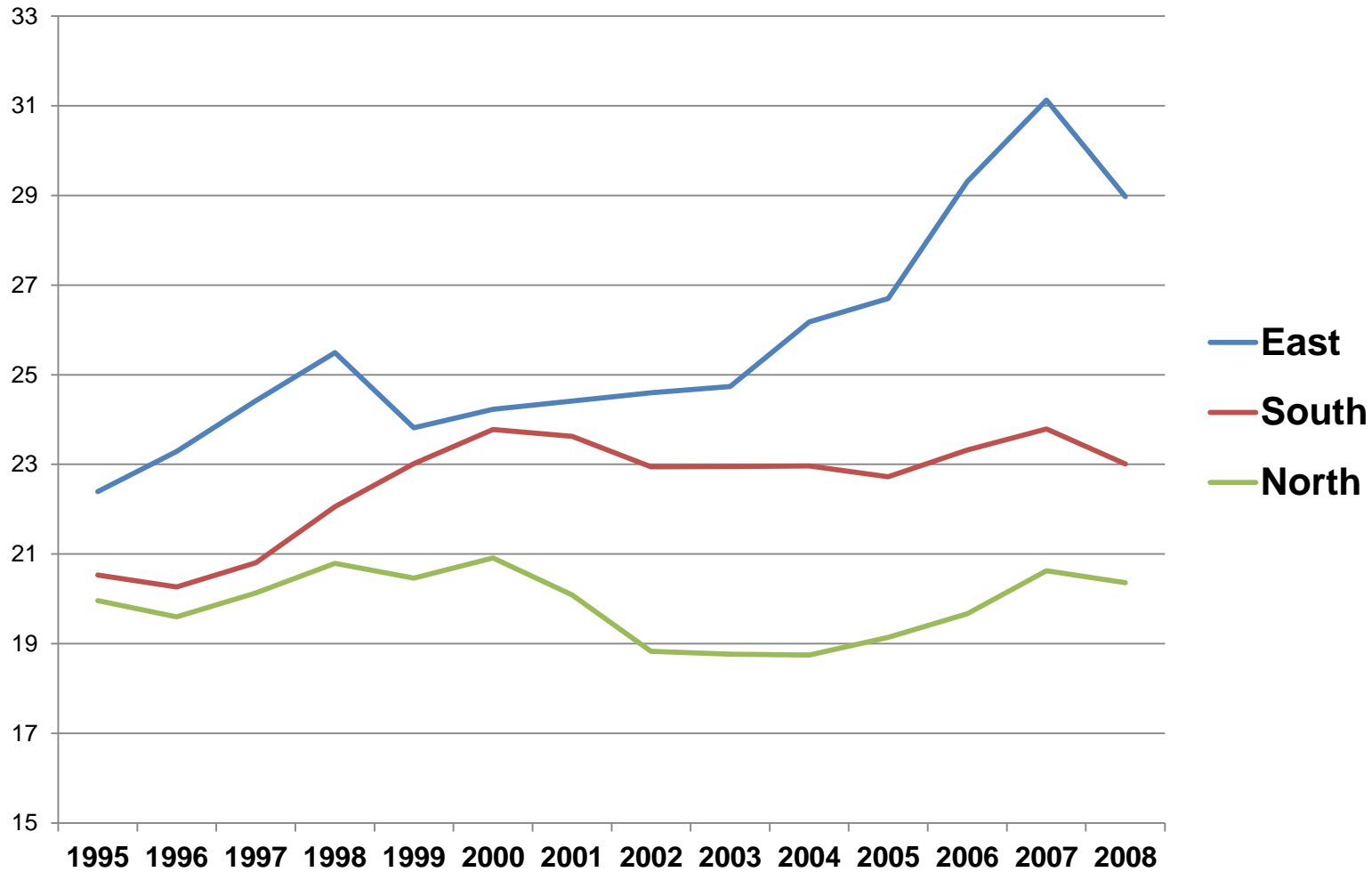


The South

Current account surplus as a percentage of GDP, 1995-2008
Source: IMF

Europe: Share of Investment in GDP

(1995-2008)

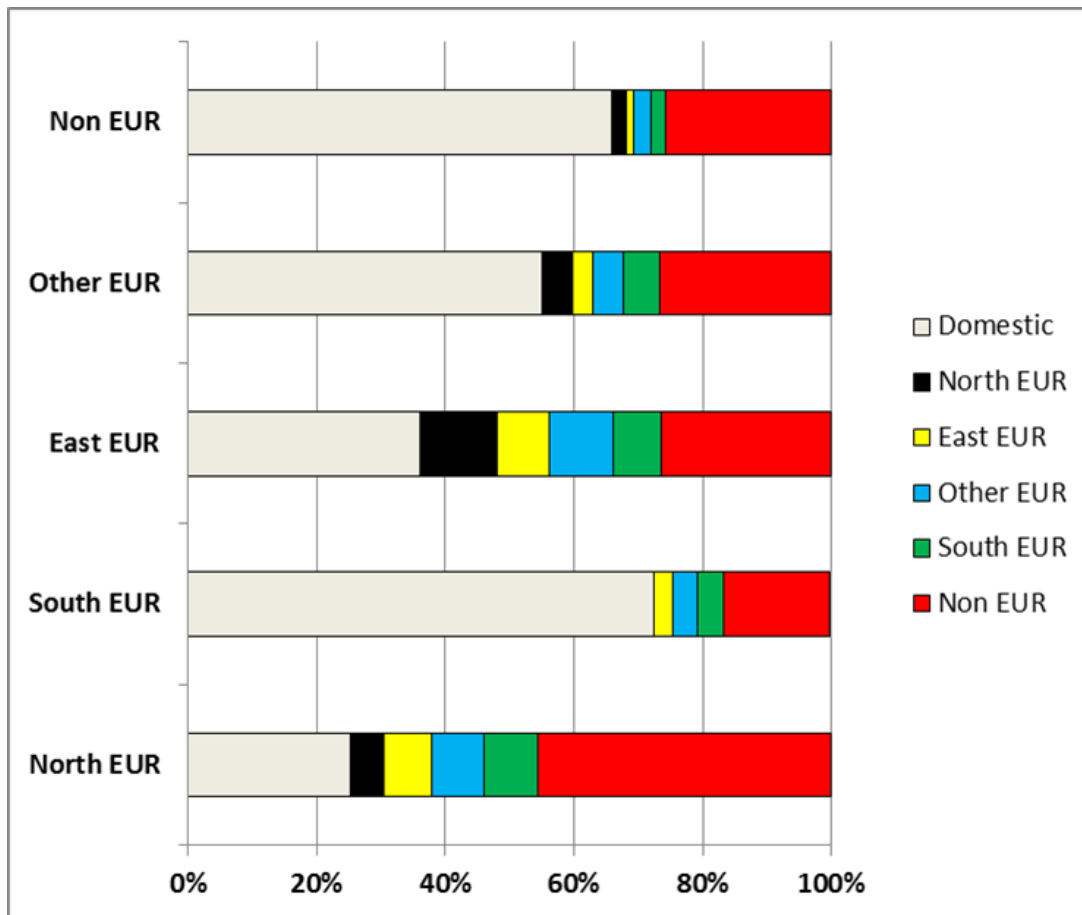


Source: WIOD

The European Divide

- A **long run phenomenon**, visible long before the crisis struck
- Not caused by **exceptional macro-economic behavior** in Southern or Eastern Europe
- **Southern deficits**: Evolved in spite of **slow growth**
- **The Eastern deficits**: Results of an **investment boom** (inflows of foreign capital), quite normal in catching up economies
- **European integration** (internal market, Euro) intended to spur growth, (how) **did it work?**

Where did the growth-inducing demand originate? Growth of GDP, 1995-2008

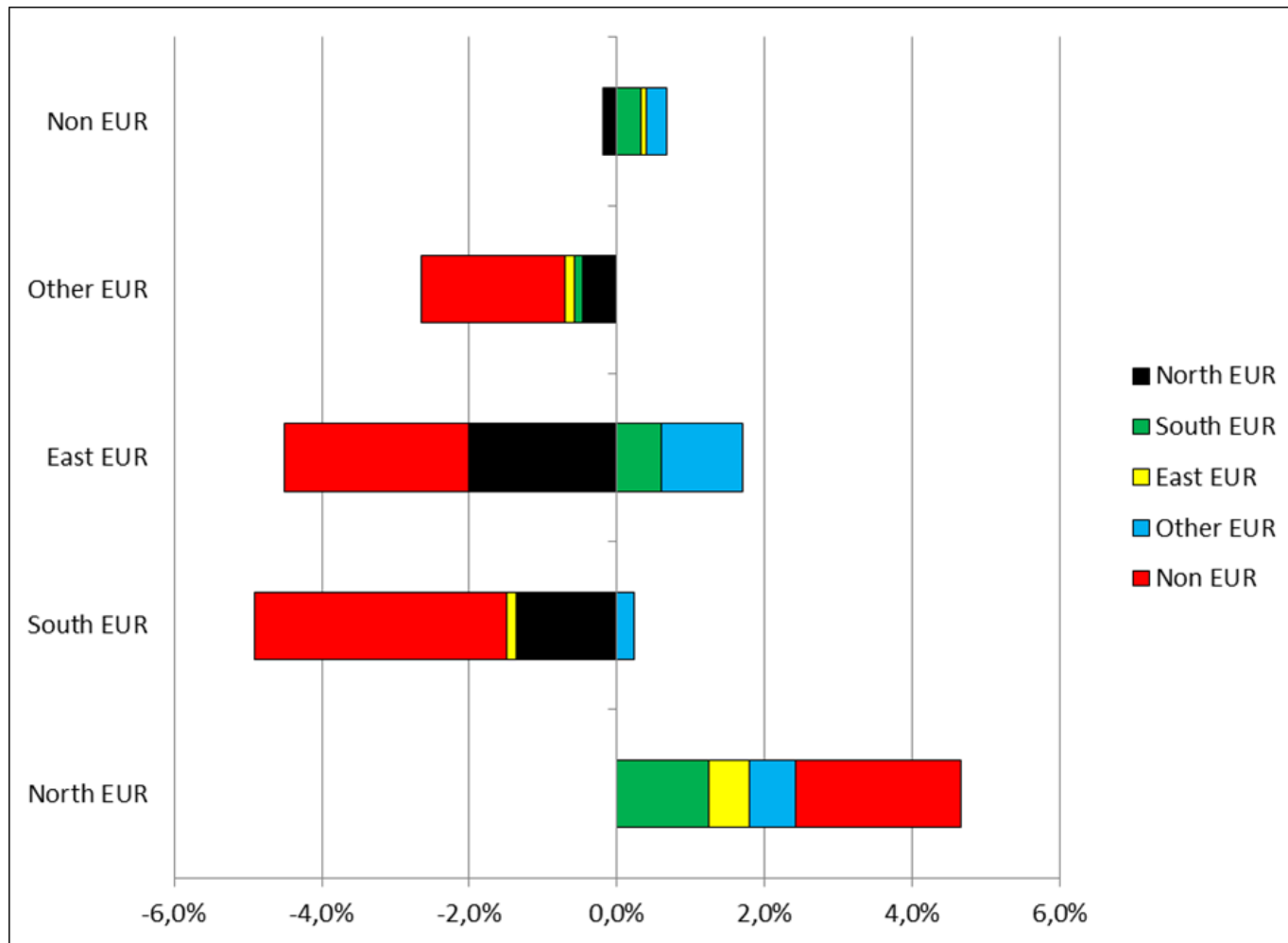


**Source:
WIOD**

European integration: Asymmetric effects

- The **major beneficiary** of European integration prior to the crisis was **Eastern Europe**
- **Northern Europe** also benefited
- **Southern Europe benefited very little** if at all
- Apart from Eastern Europe, **demand from the rest of the world more important** than demand from Europe
- What were the **consequences** of these effects for the **external imbalances** (value added trade balance: difference between “exported” and “imported” GDP) that evolved?

Changes in the value added trade balance as a % of GDP, European regions, 1995-2008



Source:
WIOD

Heterogeneous Europe: Policy failure

- **Northern Europe:** Advanced countries that grow slowly (austerity), highly **internationalized**, trade surpluses
- **Eastern-Europe:** Catching-Up economies (first and second tier), grew rapidly, internationalizing, **hard hit by the crisis**
- **Southern Europe:** Least internationalized countries in Europe, competition from China etc., trade deficits, slow-growing, hard hit by the crisis, **falling behind?**
- **Europe: On the path towards divergence?**
- The **Euro:** A **flawed** arrangement supporting **austerity**
- The need for a (new type of) European **growth policy** that supports growth **in all parts of Europe**