A different approach to reforming EU economic governance

Jacques Le Cacheux

Should there be a 'Competitiveness Pact' to replace or work together with the 'Stability Pact'? This was, in essence, the proposal made by the German and French governments, half way through February 2011, to their European partners. The proposal was intended to ensure the survival of the eurozone, at risk, maybe not of collapse, but suffering severe tensions and drastic budget consolidation policies, at a time when economic growth in the European Union (EU) remains below that observed in all other parts of the world, and when unemployment rates are very high in most Member States. The recession which, in 2008-2009, followed the bursting of the US housing bubble and the collapse of the financial markets, in the wake of the default of the Lehman Brothers bank in September 2008, has ultimately hit Europe harder than the United States. Despite a certain recovery in 2010, most EU economies have not yet returned to the levels of activity reached in 2008. 2011 is not looking particularly promising for the economy, except for Germany. It is true that the financial markets have recovered, that the banks and large companies are announcing profit-figures comparable to pre-crisis levels. However, whilst the budgetary stimulus plans implemented during the crisis are having their final beneficial effects and all European governments are introducing austerity measures; whilst there is a risk that the renewed increase in inflation resulting from the rise in commodity prices may cause the European Central Bank (ECB), in the near future, to toughen up its monetary policy, so that the inflation rate will not, in the long term, remain above the 2% objective which it deems necessary for monetary stability, growth prospects are insufficient to ensure any rapid drop in unemployment or increase in purchasing power. Germany alone, with relatively high growth rates in 2010 and probably in 2011, a low and decreasing unemployment rate, and record trade surpluses, seems already to have surfaced from a crisis still affecting the other European economies. It is, for this reason, tempting to follow the German example.

Maybe budgetary discipline and wage moderation, practised in Germany for around a decade, in such vivid contrast to developments elsewhere in Europe, particularly within the eurozone, could be the secret of success and point the way out of crisis for the other European economies? The logic underlying the still vague ideas for 'economic government' of the eurozone, under discussion at the beginning of 2011, is that of an extended set of rules, applying not just to the public finances falling under the reformed Stability Pact, but also to the factors determining the competitiveness of the national economies of Member States. Can this new form of economic governance help to overcome the difficulties facing the European economy? Can it restore in the EU, particularly in the eurozone, the economic consistency which has been lacking since the launch of the single currency, thus hindering the conduct of monetary policy and giving rise to lasting differences in national macroeconomic results? What, moreover, might be the social cost of this sort of collective adjustment strategy, focused on competitiveness and budgetary austerity?

This chapter analyses the macroeconomic policies implemented in the EU in recent years, and the prospects opened up by the reform of 'economic governance' now underway. This analysis focuses mainly on the eurozone, since it is subject to a single monetary policy and specific tensions. The first section emphasises the differing national macroeconomic developments to be observed within the zone, and shows how the 2008-2009 crisis has accentuated those differences. In a second section, we analyse the costs of non-coordinated national budgetary consolidation policies, and in the third we highlight the deflationary risks and incentives to non-cooperative national strategies which could result from the proposed reform of European economic governance. In section four we sketch out an alternative strategy, which would aim to correct macroeconomic imbalances and restore European public finances while facilitating economic recovery, in order to direct the European economy towards a path of greater and more sustainable potential economic growth. Finally, in our conclusions, we stress the link between sustainable public finances and the sustainability of economic growth.

1. Divergences within the eurozone

The 2008-2009 crisis, followed by the public debt crisis in 2010, exposed acute differences between national macroeconomic situations in the eurozone. These had existed previously and had been exacerbated during the first ten years of the single currency. Many people had believed that belonging to a monetary union, subject to monetary policy and to a certain discipline imposed either by the financial markets – in relation, particularly, to interest rates, with the intervention of rating agencies – or by common rules and 'flexible' coordination mechanisms, introduced at the beginning of the year 2000, would naturally produce a genuine convergence of national economies. However, contrary to their hopes, most macroeconomic indicators highlighted an increasing divergence of national paths, brought to light when accentuated by the crisis (Le Cacheux, 2009).

Failure of economic governance of the eurozone

The choice made when forming the economic and monetary union, later consolidated by the Growth and Stability Pact adopted at the Amsterdam Summit (1997) and by the provisions of the 'Lisbon Strategy', launched in spring 2000, favoured decentralisation of economic policy powers (in accordance with a narrow interpretation of the principle of subsidiarity), the adoption of common general objectives and rules governing national policy, in preference to a more 'federal' structure, in which a common European budgetary policy or, at least, more coordinated national policies, would be a counterpoint to the ECB single monetary policy. In the absence of joint institutions and instruments (especially with an ever-decreasing European budget, focusing solely on agriculture and regional policies) or any real coordination of national policies, what has been established is governance by rules and competition between Member States.

As could have been predicted, this method of governance has not encouraged true economic convergence between the economies of the monetary union countries, but has had the opposite effect. Rules can provide an appropriate framework when national economies are interdependent in a largely negative way; in other words, when the aim is to avoid individual economies adopting strategies which are likely to produce negative effects on their partners. This is why national budgetary policies have been subject to certain restrictions in order to avoid 'excessive deficits', but have never been encouraged to follow strategies of benefit to all. Likewise, the governance instruments created by the 'Lisbon Strategy' have promoted competition between national governments, the main thinking being that each one must implement, independently, the national policies most likely to achieve general goals set for each national economy, regardless of any potentially negative repercussions of these national policies on the economies of their partners. The natural consequence of this has been competing national strategies with no cooperation.

The choice of indicators focusing almost exclusively on global macro-economic performances, (growth and employment rates), or on the state of national public finances, resulted in a failure to take account of worrying signs that imbalances were building up elsewhere, whether private debt, external imbalances or loss of competitiveness, at a time when national economies were becoming increasingly polarised, during the first ten years of the eurozone. With such diverging national economic situations and, in particular, consistently high inflation in countries where domestic demand was strongest, ECB single monetary policy was bound to create a variety of monetary conditions, which were too lenient where more rigour was required and too restrictive where more flexibility would have been desirable. At the same time, lack of judgment by rating agencies and resulting weaknesses in market discipline were keeping long-term nominal interest rates low in countries where the rate of private indebtedness was thus pushed upwards by real interest rates of 0% or even lower.

The public debt crisis

The 'heroes' of the Lisbon Strategy, whose annual results, published by the European Commission, told a glowing story, unfortunately proved in practice to be the weakest links in the 2010 crisis in public finances. Seriously hampered by banking rescue packages and Keynesian-style recovery plans, pursued in each country, with very little coordination (Le Cacheux, 2010) during the 2008-2009 crisis, European public debt became, in 2010, the target of speculative attacks which exposed the weaknesses of the eurozone. Even in countries like Spain with lower than average debt (well below the 60% of GDP threshold at the beginning of the crisis), doubts as to the sustainability of public debt levels led to further rises in interest rates and seemed to jeopardise the very existence of the eurozone.

2. The risks of budgetary consolidation

At the height of the 'Great recession' of 2008-2009, the Stability Pact was suspended and national governments were encouraged to implement budgetary policies to stimulate the economy. 2010, however, saw renewed concerns to gain control of public finances. Under pressure from the rating agencies, which were more concerned by the sustainability of public debt than they had been by that of private debt accumulated before the crisis, and from the financial markets, speculating on the default risks of the 'weakest links' in the eurozone, all European countries, some as of 2010, embarked on drastic budgetary consolidation policies, designed to meet the commitments of the Pact by bringing down budgetary deficits to below the level of 3% of GDP, by 2012 or 2013.

The requirement for sustainable public finances

The risks of unsustainable national public finances should not be ignored: even public authorities, which, unlike private debtors, are able to raise taxes and have no deadlines as such, must not allow the public debt ratio to increase indefinitely, otherwise default becomes inevitable. It is therefore vital to aim to stabilise the debt ratio; but at what level? Economic analysis provides no answers, except to show that the interest levied on public debt represents a burden on future tax-payers, and thus prompts a 'reverse' redistribution of wealth, from young working people to 'pensioners', the holders of the debt, and acts as a severe constraint on the spending choices of governments. So does the need to stabilise the public debt ratio not, then, imply a rapid downwards adjustment?

Sustainability of a debt depends on the difference between the interest rate and the rate of growth of the economy (both taken in either nominal or real terms). If the former is higher than the latter, the debt ratio is heading for disaster; in the opposite case, it is sustainable. The expectations of the financial markets thus play a crucial role in the whole process, since interest rate rises, triggered by fears of future default, may render unsustainable a debt which could have been manageable in a context of lower interest rates. Future growth, moreover, is of course a vital ingredient: if the adjustment policies implemented end up placing a long-term dampener on economic growth, they may turn out to be ineffective and costly in terms of well-being and employment.

The Stability Facility, renewed Pact, macroeconomic surveillance: 'punitive' governance

In spring 2010, the Greek public finances crisis obliged European governments, following a certain amount of procrastination, which helped to stir up speculation and fears as to the future of the euro, to adopt certain rescue measures. These began with ad hoc measures for Greece (115 billion in conditional loans, in cooperation with the IMF), and then took a more institutional form, with the setting up of the European Financial Stability Facility (EFSF). Member States contribute to this fund – although there is no joint and several guarantee, and each country guarantees only its share of the amount to be called upon in case of a crisis – as well as the European Commission, and the IMF. The maximum amount available is 750 billion euros, of which 250 would be provided by the International Monetary Fund (IMF), 60 as a direct loan from the European Commission via the European Investment Bank (EIB), and 440 would come from EU Member States (with the exception of those, such as the United Kingdom, which have refused to take part), broken down between them using a key reflecting their weight in the European economy. With this facility, the EU would seem to have gained an instrument for emergency intervention sufficient to deal with any crises affecting the other weaker members of the eurozone. However, its structure, and the way in which it is financed, show clearly that no attempt is being made to establish true European financial solidarity, since no joint debt would be taken on, and any intervention would be subject to the agreement of the IMF. The ECB, which decided to buy government bonds from Member States suffering speculative attacks, was the only institution to react speedily and pragmatically to the situation.

The Irish crisis, in November 2010, provided the first chance to implement the assistance mechanisms set up a few months previously: around 90 billion euros were finally provided in aid to a government which, having until 2008 shown budgetary surpluses and a level of public debt among the lowest in the eurozone, suddenly experienced a debt explosion resulting from the combination of a deeper recession than elsewhere, and a very serious banking crisis: the new bank rescue plan announced in October 2010 provided a cash injection to the banks of around 50 billion from public funds, thus bringing about a massive increase in the public deficit for 2010, from 12% to 32% of GDP! However, the hesitations and long negotiations resulting from this new crisis also highlighted the fragility of the European consensus on crisis management policies and on possible future developments in macro-economic policy.

The conditions relating to EFSF intervention, and its short-term nature – it was set up for a three year period – do not allow it to do more than provide a palliative response to the public finance difficulties of the Member States concerned. The terms of funding are tough: they are admittedly lower than market rates for countries subject to high risk premiums, but are still not sufficient to guarantee the sustainability of their debt, particularly since the conditions set by the donors seem bound to engender a recession in the countries concerned (see below).

In parallel, the European Commission, and the Task Force set up by the permanent EU presidency, have drawn up proposals for reforming economic governance, which, particularly for the eurozone, amount to a tightening up of the disciplines contained in the Stability Pact. Thus, in particular, sanctions would be applied more automatically in the case of an 'excessive deficit', and tighter restrictions are introduced on the pace of public debt reduction (for countries whose public debt ratio exceeds 60% of GDP, i.e. practically all of them), and on increases in public spending, which the Commission would like to see limited to the rate of growth of GDP, thus preventing any future increase in their share of GDP. There is also a proposal for extended and reinforced macro-economic surveillance, in order to prevent the emergence of imbalances similar to those which arose during the first decade of the euro's lifetime. In principle, such surveillance seems hard to argue against, yet in practice there is a risk of it becoming very asymmetrical, and systematically requiring adjustments to be made in countries running a current account deficit and/or whose pay increases seem greater than average.

The European institutions, Commission and Council, strengthened in their views by the determination of the German government to avoid the ‘no bail-out’ rule in the Maastricht Treaty being replaced by lasting and more-or-less automatic financial solidarity arrangements, seem, first and foremost, concerned to reduce to a minimum any moral hazard problems. This seems to be the logic behind the decision taken that the European Stability Facility should only grant aid at terms nearly as tough as those set by the markets, and with severe conditions attached, as well as explaining the hypothesis, referred to in autumn 2010, that ‘creditors should be involved’ in the funding of the financial assistance plans. Although the concern is a legitimate one, overemphasis of this point results in greater distrust among investors, as well as in more costly consolidation policies.

Such initiatives are not innovations in the area of economic governance, but rather an extrapolation of the rules and sanctions approach which existed before the crisis. It is hard to see how this approach could be applied in a more credible way. If, however, that were to be attempted, it would be subject to a strongly restrictive bias, even more now than in the past, and this, without guaranteeing far greater real convergence, would favour restrictive macroeconomic approaches and encourage limits on national public spending, on public services or social protection.

3. Non-cooperative national strategies

The only change made to the institutional framework for European economic governance which might lead to greater coordination of the thrust of national economic policies is the establishing of a so-called ‘European semester’, during which national governments, working to a tight timetable, will be required to put their choices up for discussion by their peers and the European Commission. This requirement for up-stream consultation may, in principle, result in more cooperative policies. It could equally, however, suffer the same fate as the Broad Economic Policy Guidelines (BEPG) set up by the Maastricht Treaty for the same purpose, and which ended up playing only a very minor role.

The new structure proposed for European economic governance, particularly for the eurozone countries, is basically a continuation of the discipline-based approach of the Stability Pact, to which the German and French governments recently suggested a new strand should be added concerning 'competitiveness', and largely targeting, in its most recent version, wage restraint. These features, together with the emphasis placed on early budgetary consolidation, will strengthen the trend which already exists towards favouring non-cooperative national strategies, although these are unable to resolve the challenges facing the EU.

The costs of early consolidation

The most problematic aspect of the guidelines imposed on European governments since the end of the 'Great recession', relates to the pace and nature of budgetary consolidation policies. Those countries, it is true, which suffered speculative attacks on their public debt have been obliged rapidly to apply austerity measures, whereas the others feared that they would be subject to higher risk premiums if they too failed to embark straight away on budgetary austerity programmes. However, as was recalled earlier, the financial assistance measures taken did not really reduce the pressure, and the parallel implementation of national austerity policies is very likely to have disastrous consequences on the speed of European economic recovery. This, in its turn, will hamper the aim of reducing, even stabilising, public debt ratios, according to a well-known Keynesian mechanism (Anyadike-Danes *et al.*, 1983).

Champions of this rigorous approach base themselves on optimistic macroeconomic forecasts. Some of these take as their starting-point the 'Ricardian equivalence' type of argument, which contends that private agents, anticipating a future reduction in public debt, and thus of their future taxes, will decide to save less and consume more, which would, in its turn, offset the recessive impact of a reduction in public spending – since, in theory, this is the only case where such 'equivalence' exists. Empirically, however, there seems to be little evidence supporting this hypothesis.

The other argument favouring this optimistic view of the macro-economic effects of consolidation policies is based on certain 'anti-

Keynesian' consequences observed during similar cases in the 1980s and early 1990s, principally the policies followed in Ireland, Scandinavia and Canada. All these examples, however, concerned small, open economies, which made individual decisions to pursue austerity policies, in a generally promising international context; since they had their own currency, they also benefited – as has, in part, the United Kingdom since the beginning of the crisis – from its external depreciation, stimulating external demand, and from a reduction in interest rates. The current simultaneous European budgetary consolidations, however, can reckon with neither a reduction in interest rates, nor with depreciation of the external value of their currency.

In a recent empirical study, moreover, comparing a large number of national experiences in reducing budget deficits, the IMF (2010) presents a diagnosis far more in line with the traditional – Keynesian – view of the macroeconomic effects of these policies. They generally have, it suggests, recessive consequences, at least in the short and medium term, and these effects are only partially offset by reductions in interest rates or the external depreciation of the national currency, where these occur.

The content of national austerity plans

Just as national recovery policies might have seemed to be addressing the crisis in a relatively coordinated way, while in fact there were considerable differences between them, and they contained measures which were deliberately non-cooperative (Le Cacheux, 2010), national policies aimed at reducing budget deficits tend to use competitive type instruments.

Almost all the national plans announced up to now contain measures to reduce public spending – particularly civil service job cuts, often reductions in the pay and retirement pensions of civil servants, as well as sometimes severe cuts in social expenditure, and measures to increase revenue. The former may result in competition between social systems; the latter tend to target taxes on consumption (notably VAT). These guidelines, it is true, reflect recommendations from IMF economists, which identify generally less negative effects from this type of measures, but they place most of the burden of adjustment on consumers, particularly the poorest sections of society – although in some countries, such as France, basic benefits and the minimum wage are indexed to consumer prices. VAT increases, moreover, which affect imports but not exports, are equivalent, especially within a monetary union, to a devaluation of the 'national currency', which shifts the burden, to some extent, onto the producers in trading partner countries, in this case largely within Europe.

Debt deflation on top of wage deflation

The banking, then financial, and finally economic crisis has left all developed economies in a situation in which many private individuals, companies, financial institutions or households have excessive levels of debt, particularly due to a serious decline in the value of certain assets, or to a need to revise downwards expectations of potential future revenue or income, because of the recession. In certain countries –one recent example is Ireland, but others such as Germany have also carried out a large-scale nationalisation of banking losses – some of these debts have been taken on by the public sector, sometimes within defeasance structures, in order to avoid the bankruptcy of the private institutions which held them previously. Households, when attempting to reduce private debt levels, reduce consumption and increase savings, while companies invest less and take steps to reduce their production costs: staff cuts, pressure on earnings, increasing working hours without increasing pay, even the relocation of certain activities. This phenomenon, described by Irvin Fisher as early as 1930, at the beginning of the Great Depression, and referred to as 'debt deflation', played a key part in passing on the financial crisis to the real economy, both in the 1930s and over the last two years. Indeed, all these private debt-reduction strategies result in a contraction of private demand.

It was in this very context of deflationary pressures that countries, under pressure from the financial markets, embarked on budgetary consolidation policies, as mentioned above, such as public spending cuts or tax increases, which also result in a reduction of private demand.

If, on top of these deflationary pressures, the new European economic governance guidelines were to add incentives for wage deflation in countries suffering from competitiveness problems, the ensuing dampening consequences on EU economic activity could contribute to a significant extension of the period of low economic growth. This is a particular risk for the eurozone, where there is no possibility to modify exchange rates, and where recent price increases could move the ECB towards an early introduction of tougher monetary policy measures, whilst the external value of the euro is tending to remain high.

4. Restoring competitiveness while maintaining cohesion

Although we clearly need more credible rules concerning national budgetary policies, to avoid persistent macroeconomic imbalances in the eurozone, these will only have lasting results if they are tenable, and if they provide incentives for national governments to adopt economic policy guidelines which are more conducive to more sustained potential growth. If we do not see renewed growth in Europe, attempts to stabilise, or *a fortiori* reduce public debt ratios are doomed to failure, particularly in those countries with the highest ratios, where policies have become geared towards a rapid reduction in budget deficits and towards wage deflation as a way of restoring competiveness, which has been gradually eroded over the last decade. Experience with the 'initial style' Stability Pact (1999-2005, in which year it underwent certain reforms) shows that a rule which is not tenable has no credibility, so is of little use.

Emergency measures, to provide aid to governments struggling to finance their debts, are necessary but insufficient, for they leave these countries with levels of debt which are difficult to manage. Other possible ways of reducing the pressure on policymaking in these countries deserve further consideration: partial mutualisation, for example, of eurozone public debts, by the issuing of Eurobonds, with a common sinking fund, as well, perhaps, as debt rescheduling procedures negotiated with the main creditors, particularly European banks and insurance companies. A number of ideas have been raised, but have come up against strong resistance from parties emphasising the attendant moral hazard problems, despite the fact that these are inherent to any rescue mechanism.

Another competitiveness strategy

Countries which have suffered a cumulative loss of competitiveness, since the setting up of the eurozone, need to reduce their relative unit wage costs. This does not, however, mean that they need to cut pay, nor that they should leave the eurozone: such drastic measures would be extremely costly in terms of economic growth and social wellbeing. In order to treat the condition effectively, a precise diagnosis must take place of the nature of the macroeconomic imbalances affecting the eurozone, rather than giving in to the 'dangerous obsession' with competitiveness (Krugman, 1994).

It should firstly be emphasised that current account balances not equal to zero do not necessarily point to imbalances. On the contrary, they may, within a financially integrated monetary zone, reflect different saving and investment choices: the very purpose of financial integration is to permit such divergences, in the long term. Given, in particular, the differing demographic trends observed and forecasted within the eurozone – for although all EU countries are ageing quite significantly, they are not doing so at the same rate and in the same ways – it is not surprising, in the light of lessons learnt from lifecycle analyses, that some countries have very high rates of private saving and low rates of investment, whereas others are in the opposite situation. The former group will tend to accumulate assets vis-à-vis the rest of the world – and thus to have a current account surplus – whilst the latter will tend to gather debts from the rest of the world, thanks to a current account deficit. Within Europe, the wish of some countries to keep a current account surplus can be reconciled with persistent current account deficits in others, as long as the financing channels are able, in the long-term, to carry out such financial transfers, as would probably be the case between regions in countries which have gone through a process of economic, monetary and financial integration. According to this sort of reasoning, it would be preferable, rather than condemning any current account balance other than zero, to fine-tune the diagnosis to take account of the potential reasons behind it.

It is nevertheless true to say that a large proportion of the on-going, significantly negative current account balances seen in several eurozone countries over the last decade are clearly indicators of a loss in competitiveness. This is not really a problem of excessive pay rises.

Those countries with relatively low competitiveness within the eurozone are paying the price, above all, for having specialised in sectors where labour productivity levels are increasing only slowly – particularly the construction sector, where property bubbles resulted in a type of growth with a strong bias towards the construction sector and related services. Real wages must, of course, evolve in line with labour productivity gains. The balance can be restored, however, not by cutting wages, but rather by increasing productivity. Such an aim would require, in the countries concerned but also throughout the EU, the implementation of ambitious programmes to increase R&D, train up workers, and invest in promising sectors, in order to speed up the transformation of the national economy and increases in the productivity of the labour force. There is, however, every reason to fear that budgetary austerity plans and the EU's new rules on economic governance will end up having the opposite effect.

In conclusion: a new type of growth

So the discussion on new forms of economic governance for the EU, and in particular the eurozone, highlights once again the question of coordinated European growth policies. There are two possible strategies, but they take very different paths, and imply very different social costs. One calls for immediate budgetary consolidation policies, and wage deflation to help correct internal eurozone imbalances; the other creates the conditions for correcting macroeconomic imbalances and for a credible management of national public finances by means of a coordinated growth strategy.

Growth policies, however, tend to involve positive externalities, and are unlikely to gain the upper hand in a situation where governance arrangements are rule-based and promote competition between countries (Le Cacheux, 2005; Laurent and Le Cacheux, 2010). Following a strategy based on rules would amount to repeating past errors, relying on spontaneous 'good governance' by the markets and governments. Rules should go hand in hand with common economic policies, designed to 'align incentives' – to use the expression coined by Joseph Stiglitz (2010) — for national governments, aiming to promote growth throughout the eurozone, and, at the same time, to reduce the barriers to competitiveness suffered by its most vulnerable members. Taken together with the objectives of the 2009 ‘Energy-climate package’, the Europe 2020 strategy, which is to be developed in parallel with discussions on reforming the European budget, is in a position to reconcile these objectives and to strengthen the economic cohesion of the eurozone. European budgetary resources – as well as loans from the European Investment Bank (EIB) – should be resolutely targeted on supporting the conversion of European economies, especially those of the South of Europe, towards low-carbon modes of production and lifestyles. Such an approach would help to resolve all problems at once, directing the European economy towards sustainable growth, and, moreover, growth which is less dependent on imported fossil fuels, and less vulnerable, therefore, to inflationary crises resulting from an increase in the prices of these fuels. Another step in the right direction would be to promote a sufficiently uniform and stable carbon price within the EU to ensure the effectiveness of conversion incentives. Such consistent measures would particularly benefit economies in the South of Europe, currently all extremely dependent on fossil fuels, all trailing behind in the reduction of the carbon-intensity of consumption patterns and the development of renewable forms of energy, and all blessed with abundant sunshine.

It is vital to find a way of keeping European public debts under control. Such control is necessary, in order to restrict costs to the budget, and restore room for manoeuvre to national governments, in order to reassure the financial markets, which are prone to worry and now focused on the risk of sovereign defaults, and to reassure those, both national governments and the ECB, who fear that the public finance crises in certain countries, and the need for financial assistance, may ultimately jeopardise the ‘culture of stability’ acquired at such cost with the setting up of the eurozone. The sustainability of public debt ratios, however, is in no way guaranteed by a reform of governance which risks triggering a long-term slowing down of European economic growth. A better guarantee would be provided if greater coordination of policies were to bring the EU to a situation of more sustained, and more sustainable, growth.

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