Multispeed Europe is the Future:
It had better be

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Eurozone initiatives hit barrier of national sovereignty

Hence, always “incomplete” and, thus, imperfect

Leads to “power” relationships rather “rule-based”

Completion prospects inherently hard, becoming harder as “material basis” for Europe weakens.

Non-euro area countries, therefore right to opt-out.

Opting-out has typically led to better economic performance

Europe has always proceeded at multiple speeds

This will be more so with passage of time
Example 1 Policy Coordination is Hard (Based on Zsolt Darvas and Álvaro Leandro)

- In 2011, 40% of recommendations the European Semester were implemented; 29% in 2014.
- Implementation of OECD recommendations currently have similar implementation rates, and have not experienced a fall.
- Countries under a financial assistance programs or market pressure do more initially but momentum fades.
- Message: coordination is hard; nations have their priorities.
Example 2: Incomplete Banking “Union”

Supervision
- Some promise
- But national heterogeneity of laws and practices continues
  - Which may be desirable…
- But raises questions of fairness and level playing field

Resolution
- No funding because fiscal union is impossible
- Complex process, leads back to national responsibility
- But creates fears of being held politically hostage

Country with working system would sensibly opt-out
Before the crisis: staying out of the euro did not hurt

Karl Lamers predicted: London financial center would be “crippled”

CPI Index, 2001-2007
12 month rolling average, December 2005 = 100

Average inflation, 2001-2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Inflation</th>
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<tbody>
<tr>
<td>Poland</td>
<td>2.5</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.6</td>
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<tr>
<td>Eurozone</td>
<td>2.2</td>
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</tbody>
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Source: OECD
Swedish Grew as Predicted by Convergence Process

Economic Convergence in Europe 1999-2007

Average of Annual Growth Rates of GDP per capita based on change in constant prices in national currency, 1999-2007

Log of GDP per Capita based on PPP in 1999

Countries: Albania, Bulgaria, Croatia, Hungary, Macedonia, Poland, Romania, Slovakia, Slovenia, Latvia, Estonia, Lithuania, Czech Republic, Sweden, Germany
The Italian “miracle” was as much a bounce back from the war devastation…

Italy lags in all human capital and innovation indicators.
Has high tertiary educated emigration.
Population aging: young unemployed.
Hence lags in productivity growth.
Performance during the Great Recession

Real GDP  
2007 = 100

Sweden  
Average Euro Area
The “material basis” for Europe is eroding: European nations will trade less with each other...

...national sovereignty will become more prominent.