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

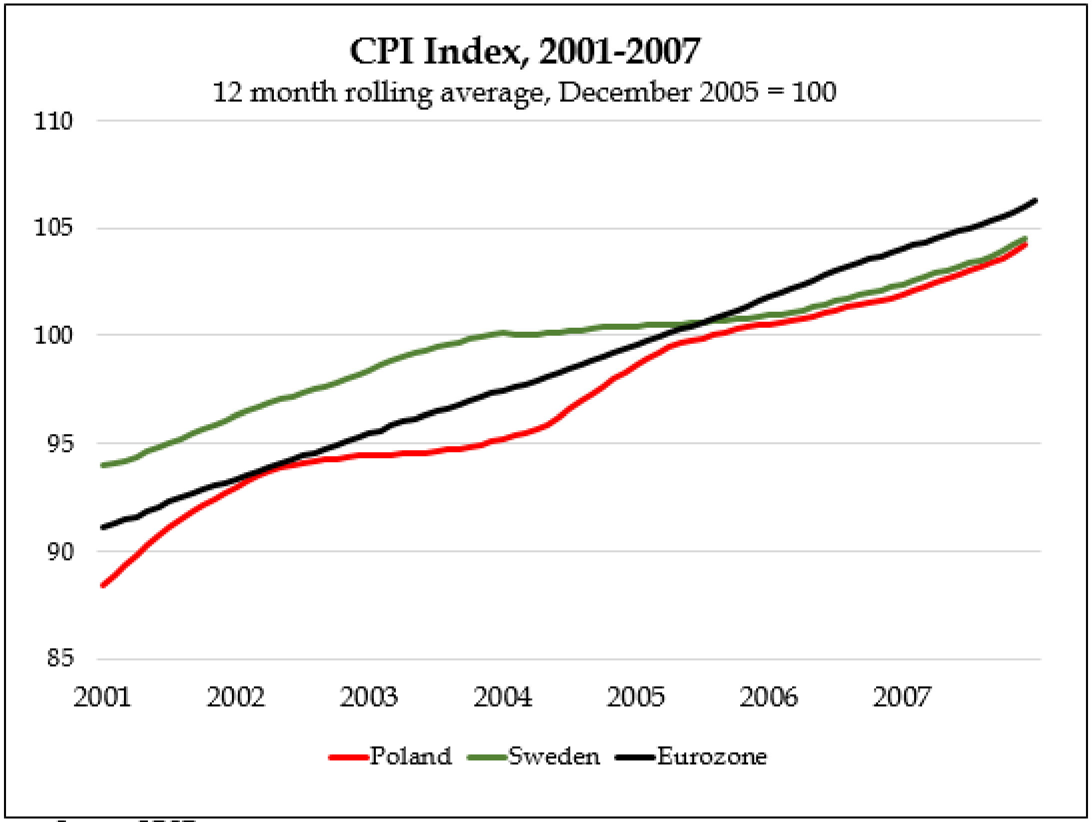
- Some promise
- But national heterogeneity of laws and practices continues
  - Which may be desirable…
- But raises questions of fairness and level playing field

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

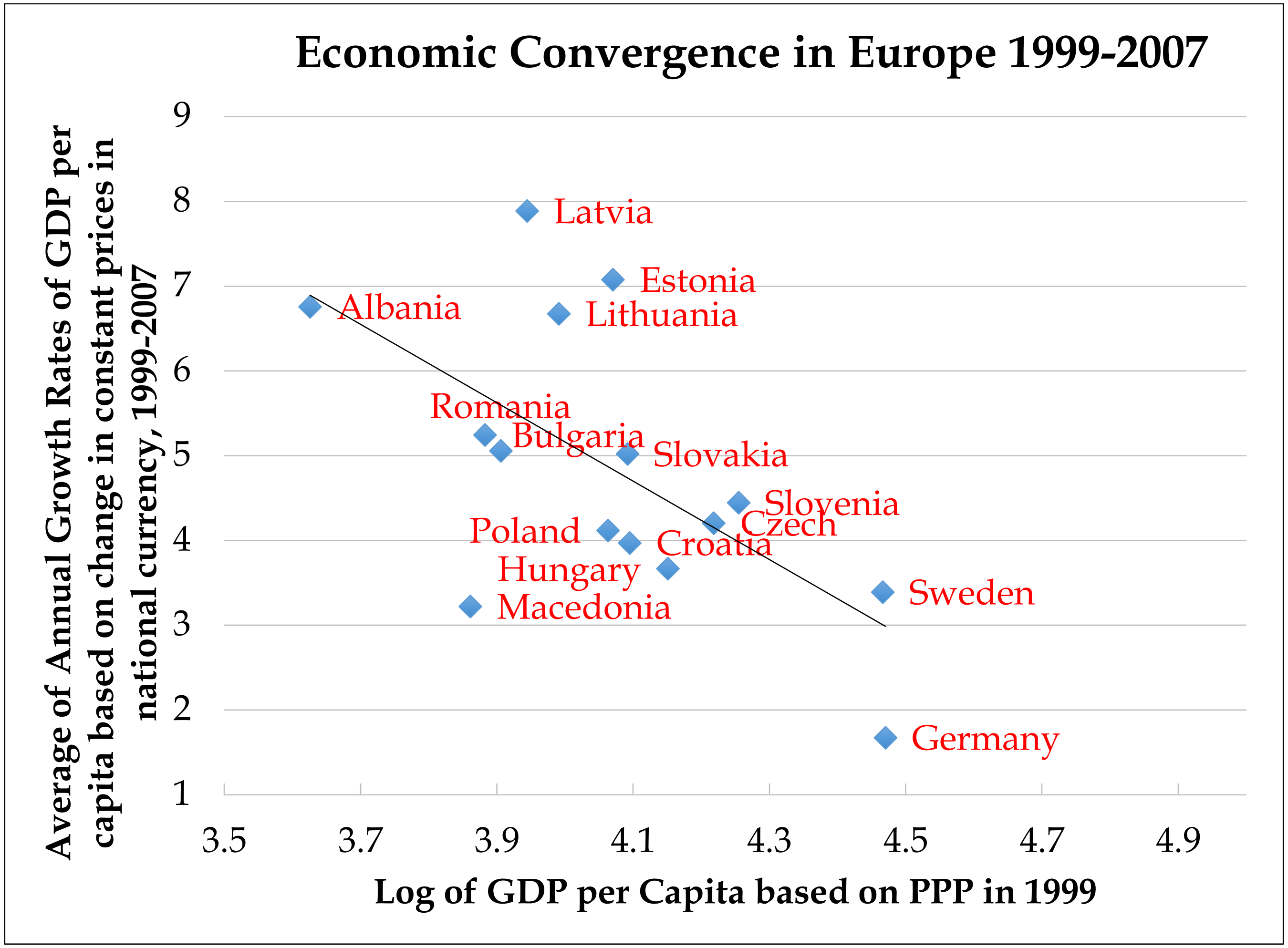


Source: OECD

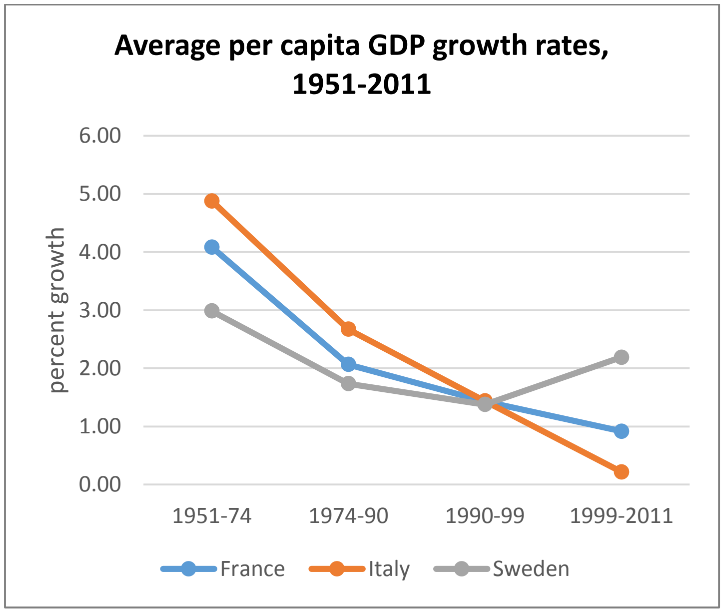
Average inflation, 2001-2007	
Poland	2.5
Sweden	1.6
Eurozone	2.2

Karl Lamers predicted: London financial center would be "crippled"

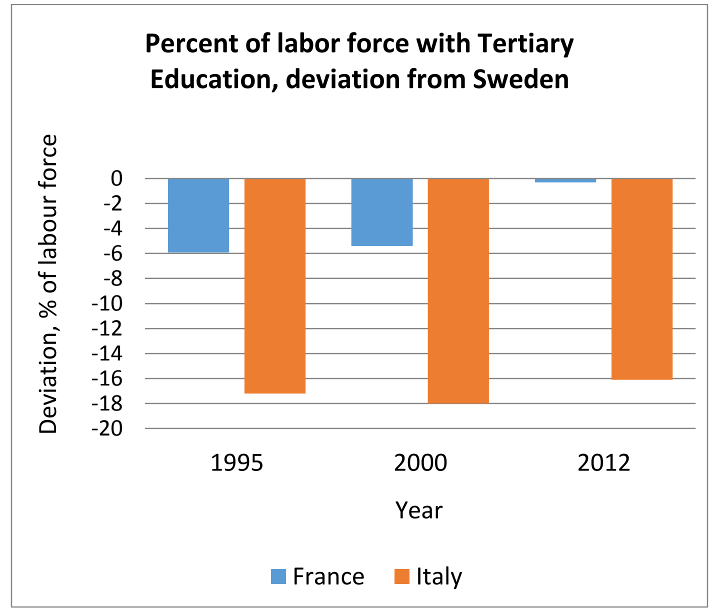
Sweden Grew as Predicted by Convergence Process



Eurozone Changed Neither the Social Contract nor Invested in the Future

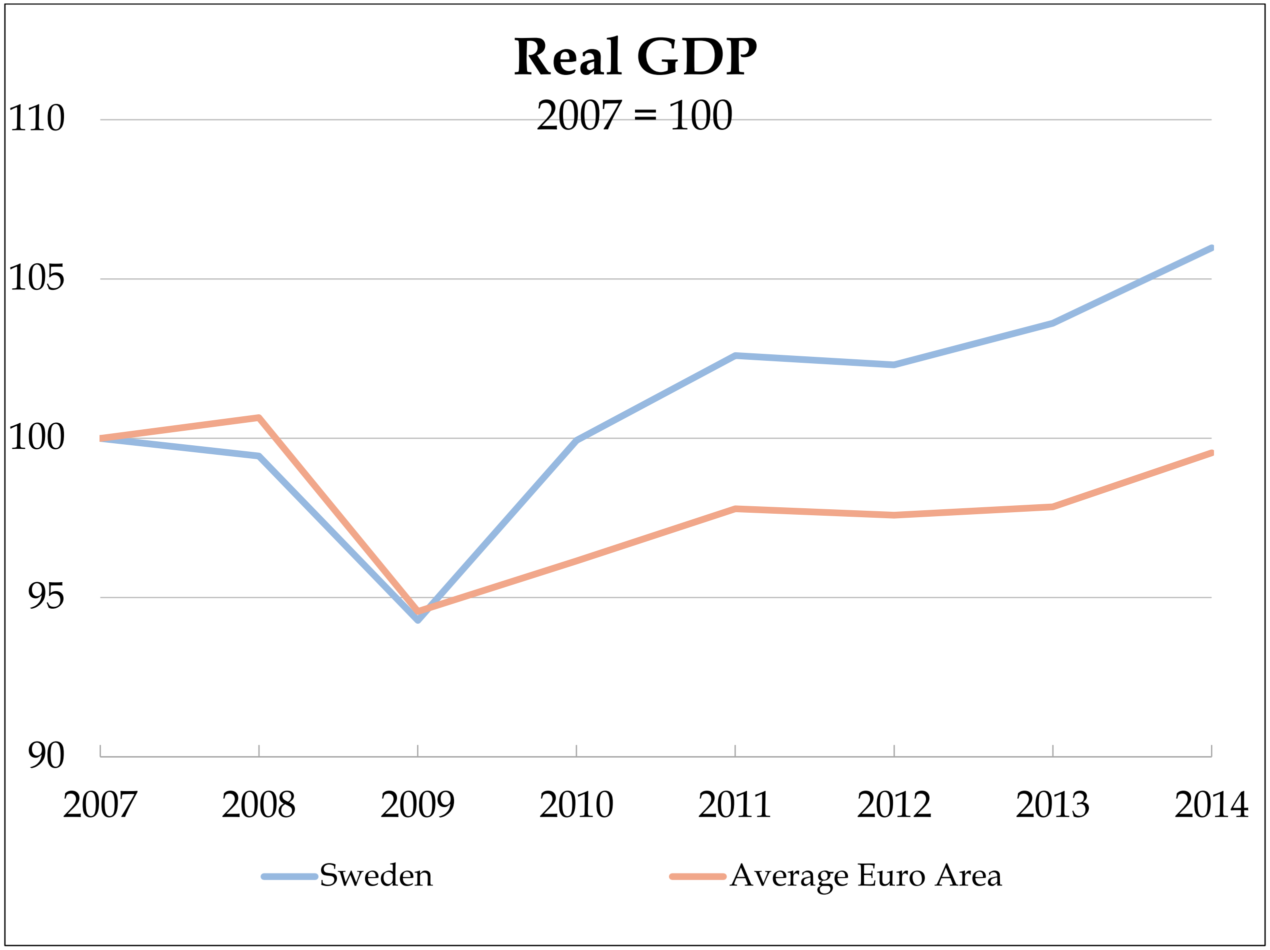


The Italian "miracle" was as much a bounce back from the war devastation…

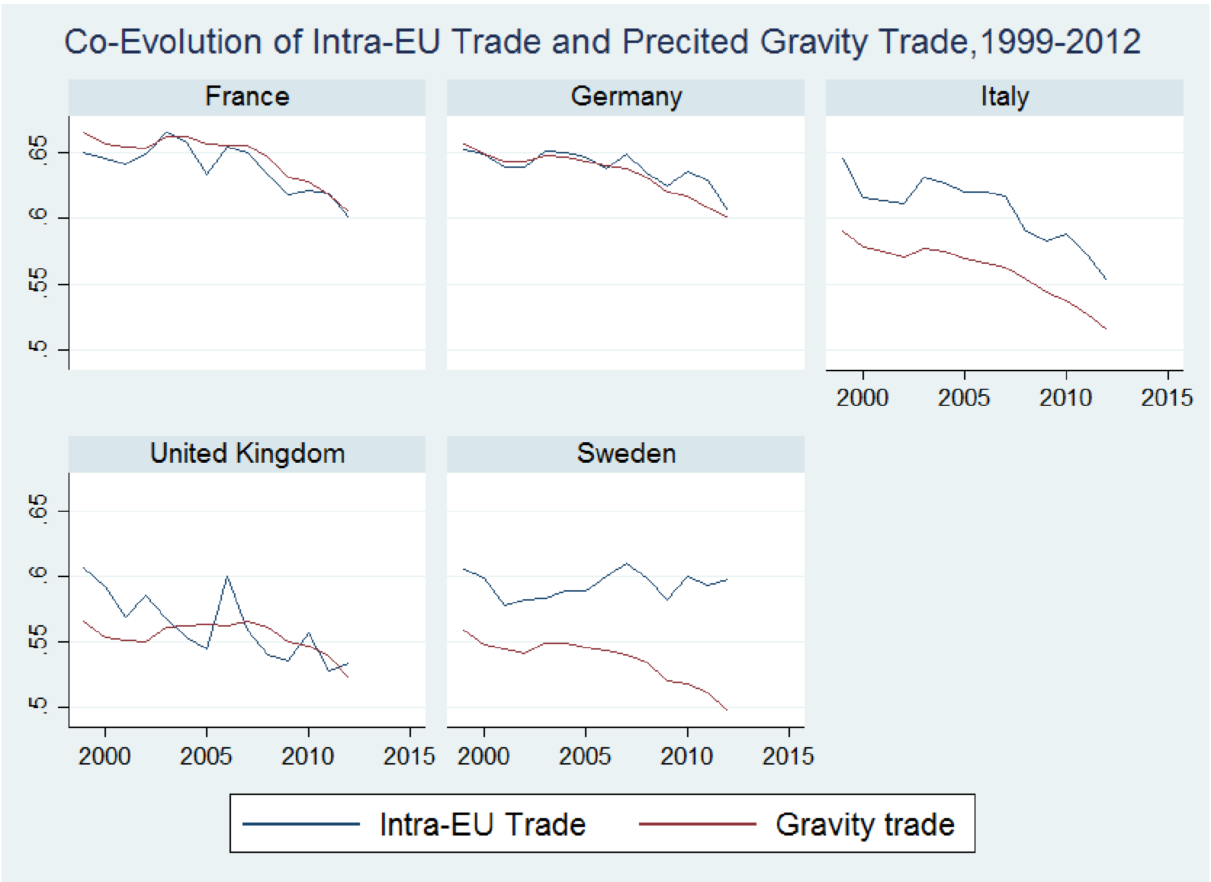


Italy lags in all human capital and innovation indicators.
Has high tertiary educated emigration.
Population aging: young unemployed.
Hence lags in productivity growth.

Performance during the Great Recession



The "material basis" for Europe is eroding: European nations will trade less with each other



…national sovereignty will become more prominent.