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Challenges for Europe in the World, 2030

by **John Eatwell, Terry McKinley, and Pascal Petit**

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Challenges for Europe in the World, 2030 could not have been published at a more propitious time. Europe has been dominating the headlines, not just in Europe but also in the US and elsewhere, and the headlines scream "challenges!" from every perch. The list is long and not usually pretty: the Euro Crisis lingers on and has even intensified, with the Greek drama coming to a head less than a year after the book's publication; Russian tension with the Ukraine spilled over into violence and crossed borders, leading some to wonder if the "Cold War" is really over; unemployment remains stubbornly high in a number of European countries and youth unemployment is at catastrophic levels in parts of the Southern Periphery of the Eurozone; "European Skeptical" political parties have gained political ground in some key European countries; and the tragic migration / refugee crisis has thrown the challenges facing European cooperation into the starkest and most dire relief imaginable.

Into this European cauldron of economic and political challenges arrives this major book written by a group of top-notch European economists from a number of different European countries and universities, researched, debated and produced under the auspices of a project funded by the European Commission. Coordinated by well-known French economist, Pascal Petit, a senior researcher for the French National Center for Scientific Research (CNRS) and attached to the CEPN (Centre d'Economie de Paris Nord) in Paris, the research was carried out primarily by a consortium of seven European institutions from Cambridge, London, Rome, Warsaw, and Vienna along with consulting partners in India, China, Brazil and South Africa. This is obviously a complex and massive undertaking, which helps to explain why the published product is over four hundred pages long.

The project is cleverly, but, thankfully misleadingly, called AUGUR. Dictionaries tell us that the word "augur" means "to portend a good or bad outcome" and derives from "one of a group of ancient Roman religious officials who foretold events by observing and interpreting signs and omens…". An augur, is thus "a seer or prophet; a soothsayer" … "a religious official who observed natural signs, especially the behavior of birds, interpreting these as an indication of divine approval or disapproval of a proposed action". If the authors of the project were really trying to augur, that is, to predict the state of Europe in 2030, given all the uncertainty and profound changes occurring in the European and global landscapes, readers could understandably be very skeptical of their project. But, as *Europe, 2030* states in its executive summary: “projections are illustrative of what might or could happen and should not be regarded as predictions” (p. 2, footnote 1).

Instead, the researchers have created a somewhat complex but valuable structure for the project: instead of trying to “predict the future” the economists developed a set of scenarios structured around several possible configurations of important policy / structural choices. Perhaps somewhat surprisingly for a group of economists, the main structural and policy choices that define the different scenarios are not various possible economic drivers, but rather, essentially policy and governance choices.

Still the focus of the report is on the economic implications of various governance and policy scenarios. This creates one of the innovative and distinctive features of the report: the project uses a sophisticated global macroeconomic model to run simulations of the different scenarios distinguished by combinations of the governance and policy choices, and through this interaction we are able to get concrete and detailed projections of the impacts of these scenarios on important variables such as economic growth, employment, productivity growth and the distribution of income across countries.

The project has a perspective of course, so these scenarios are framed from a particular point of view. As the authors state early in their report: “the important challenge confronting the EU (and indeed other major economies) in the coming decades is how to create new modes of cooperation to ensure sufficient growth in demand in the world economy as a whole, and at the same time adjust competitive advantages to achieve an acceptable division of employment and income between countries with different specialisations, social institutions and levels of development. The lead in rebalancing economies to improve growth and distribution has to be taken by governments acting in a coordinated manner. Identifying what such coordination might consist of, and its consequences for productivity growth, employment and other related long-term problems in economy and society, are the prime objectives of this report” (p. 2).

The authors note several key trends in the global economy that they must incorporate in order to identify scenarios that capture key dynamics that are likely to move our economies and societies over the next fifteen years. One is the reduced power of national governments to control markets and outcomes. This is largely due to the constellation of trends known as globalization. Government power is also reduced by a second important trend identified by the authors: this is the increased importance of “financialization”, that is, the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies. The Great Financial Crisis (GFC) of 2008 is the clearest example of the dangers imposed by financialization run amok, but it has deeper and more widespread implications including a financial environment that governments are finding it difficult to control.

A third contextual factor is the central role played but two great military and economic powers - the US and China - in the global economy. The context within which the European economy can flourish or stagnate will depend to some extent, on what China and the US do. The authors refer to US-China accommodation as a scenario in which these two countries follow policies in their own best interest - with the

US adopting a more expansionary fiscal policy and by devaluing the dollar and the Chinese stimulate domestic demand.

In contrast to this scenario of passive of accommodation to whatever the Chinese and Americans choose to do there are two alternative scenarios analyzed by the authors. One consists of regional cooperation in various parts of the globe in which the focus of trade and other policy is regional, rather than national or global. A second possible alternative to accommodating to China and the US is a global "multi-polar collaboration" which could embody for example, global reductions of trade barriers and coordinated expansionary global fiscal policy.

The Europeans are not, however, totally dependent on what the Americans and the Chinese do. The Europeans have some control over their destiny, some political choices to make. The authors analyze several policy scenarios that interact with the global scenarios described above. The main scenarios with respect to Europe are four: (1) "Eurozone break-up"; (2) "struggling on" or "muddling through"; (3) "multi-speed Europe"; (4) towards a "Federal Europe". Each of these scenarios is more or less self-evident. In the Eurozone break-up the EU stays whole but countries go back to their own currencies; muddling through is a continuation of current policy, more or less, which means austerity and uneven growth within the Eurozone; multi-speed Europe is a more flexible Eurozone, with some countries adopting their own currencies but keep them in a "crawling peg" relative to the Euro, that is allowing to use external devaluation to supplement internal devaluation and a Federal Europe that would embody a European treasury, transfers among countries, and a European Central Bank that could by significant amounts of government debt.

To assess the impacts of these various scenarios on economic growth, employment, productivity growth and other important features of the economy, the project ran a set of simulations of a large-scale macroeconomic model developed by project member Francis Cripps. The model distinguished 5 sub-regions of Europe (North, South, East, West and the UK), 4 large countries (US, Japan, China and India) and 10 other country groups in the rest of the world. The model is Keynesian in the sense that aggregate demand is a very important driver of output, employment and growth. As a result, government spending and private investment are key drivers of output and employment. It is Kaldorian in the sense that technological change is another important determine of long-term growth and productivity growth. A key feature of the model is that it does not have a long run equilibrium toward which the over-all economy is converging (unlike most mainstream models); this open ended approach is, in my view, both a more realistic conception of the dynamics of a capitalist economy than that captured by mainstream models, but it also serves as good vehicle for these type of scenario simulations. Another important feature of the model in this age of "financialization" is that it keeps track of the evolution of deficits and debt, due both to government fiscal policies and to the actions of firms, financial institutions and households.

The results of these simulations are not terribly surprising, but they are informative and interesting nonetheless. Cooperative scenarios do better than non-cooperative scenarios. So for example, on the global scale, regionalization does better than the austerity or reduced government scenario, while multi-polar collaboration does better than both of those. With respect to the European scenarios, the toward a Federal Europe does much better than the Eurozone break-up or struggling on / mudding through scenario. But, interestingly, the multi-speed Europe does almost as well as Federal Europe, and for some regions, does even slightly better in terms of economic growth. The key appears to be that cooperation or some flexibility, allows for more expansionary policies and less austerity, while maintaining the benefits of trade and division of labor.

The project has much more than these very interesting scenarios. It has interesting sections on financial markets, demography and migration, well-being - including health and education, and energy and the environment. It is here that one would have hoped that the results would have been highlighted more and that the scenarios would have been dealt with to a greater extent. That is because as the simulations show, under virtually all the scenarios, green house gas emissions keep going up significantly until 2030 and appear to reach very high levels. Under the Federal Europe level they stabilize, but even here it appears to be at an unacceptably high level, and the mechanisms of stabilization are not completely clear.

These results were not highlighted or dealt with in the executive summary, or much in the conclusion and this seems like a missed opportunity. The detrimental effects of climate change are surely a central, if not the central challenge, facing Europe as well as human kind in the next decades. So, on the one hand, it is highly commendable that the project made a big effort to incorporate these issues into the modelling exercise; I only wish they had made more of the results.

Having said that, the authors and the coordinator, Pascal Petit, are to be commended for developing a rich structure of analyses, data, simulations and policy projections that will certainly inform the debates in Europe in coming years about what their future might hold, and how they might make it one of sustainable shared prosperity, rather than one of crisis as it too often appears to be.