Threats to European Recovery

Peter Bofinger
University of Wuerzburg
German Council of Economic Experts
The German therapy for growth

• Consolidation
• “Structural reforms“
The German contribution to growth
What has happened to the Euro Area?
Insufficient fiscal stimulus

Fiscal Balances (percent of GDP)
Deleveraging with and without fiscal support

Private financial balances (% of GDP)

Current account balance (% GDP)
Delayed monetary policy response
Insufficient QE

Central Bank Bond Holdings (percent of GDP)
Situation has stabilized in 2014
Signs of hope: speed-limits for consolidation

[Diagram showing structural fiscal balances (% of GDP) for Ireland, Greece, Spain, France, Italy, Portugal, and the Euro area for 2013, 2014, and 2015.]
Signs of hope: Depreciation of the Euro
Unemployment and public debt remain very high
How important are structural reforms?

<table>
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<th>Employment protection Regular employment</th>
<th>Employment Protection Temporary Employment</th>
<th>Replacement Rate Unemployment</th>
<th>Coverage Collective arrangements</th>
<th>Tax Wedge</th>
<th>GCI Labour Market Efficency</th>
<th>EFoW Labour Market Regulation</th>
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Sources: OECD, Global Competitiveness Report, Economic Freedom of the World
How bad is France?

GDP/(2007=100)

- Canada
- France
- Germany
- Italy
- Japan
- United Kingdom
- United States
The German approach: a model for Europe?

• “Hartz reforms did not play a decisive role”

• „Evolution of Germany’s per unit labour costs (...) has played an important role“

Problem of insufficient investment

![Net investment (percent of GDP)](image-url)

- Problem of insufficient investment

- Net investment (percent of GDP)

Problem of insufficient R&D spending

In percent of GDP (2012 or latest available year)
Two pillar approach: Investment for reforms

• Growth friendly fiscal compact: Golden rule for investments
• Golden-rule investments require an authorization by the European Commission
• Countries qualify for golden-rule investments by implementing structural reforms