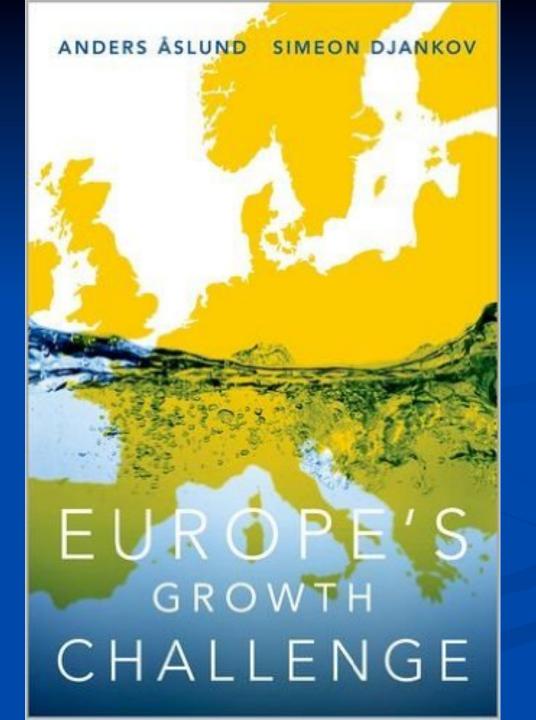
Europe's Growth Challenge

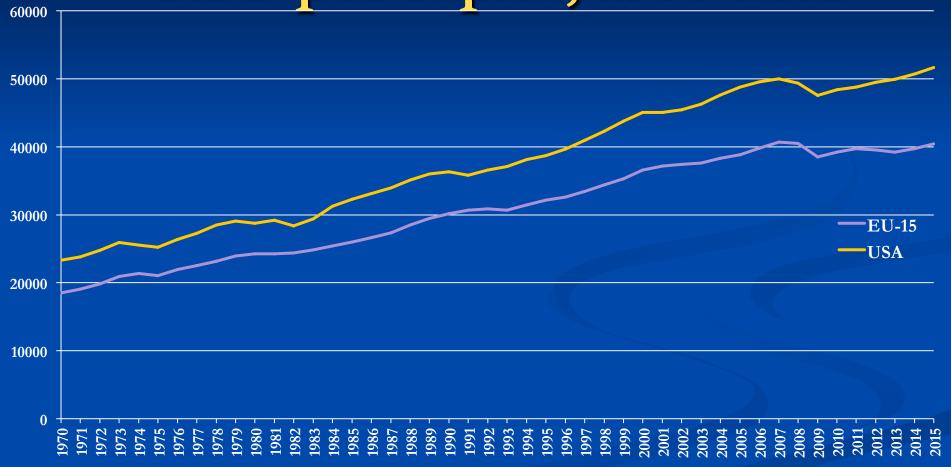
Anders Åslund, Atlantic Council Simeon Djankov, London School of Economics



Europe's Problems

- Low growth, 1%/year less than US after 1975 & no convergence
- High unemployment, 8% rather than
 4.5%
- Too little innovation
- But in each regard, some EU countries do well

No Convergence, EU-15 vs US, GDP per capita, 1970-2015



Europe needs to grow more to overcome its crises

- **EU** responsibility: Markets
- National governments are responsible for nearly all structural reforms

Our Thesis: Higher Growth Is Possible

Europe can raise its GDP growth by 1%/year through structural reforms

Fiscal Stimulus: No Solution

- No fiscal space: EU public debt 87% of GDP in 2015
- Fiscal or monetary stimulus have not raised productivity but impeded reforms
- Has been tried & did not work
- Uniquely few reforms after this crisis

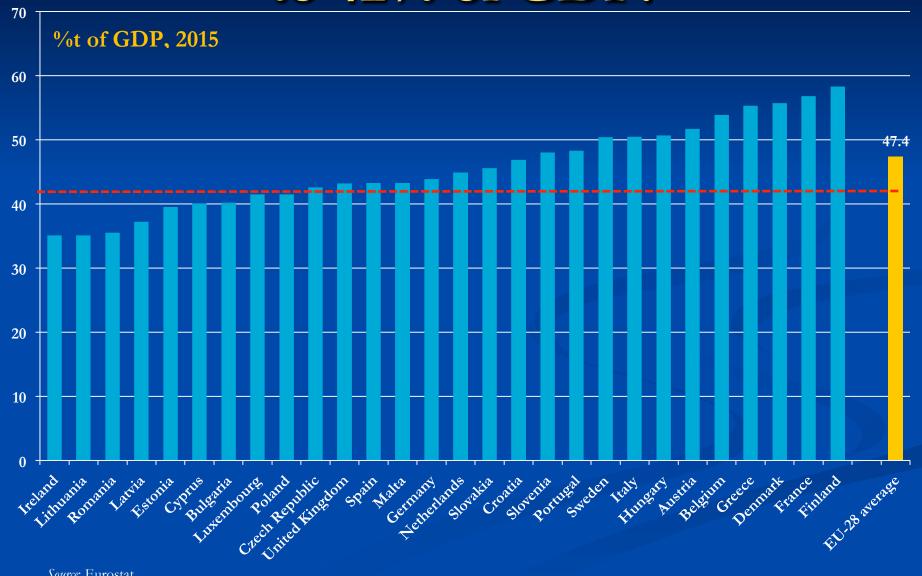
7 Key Structural Reforms

- 1. Ease fiscal burden
- 2. Open up services market
- 3. Free digital trade
- 4. Reduce the burdens on labor
- 5. Improve higher education & innovation
- 6. Reform pensions
- 7. Complete EU energy union

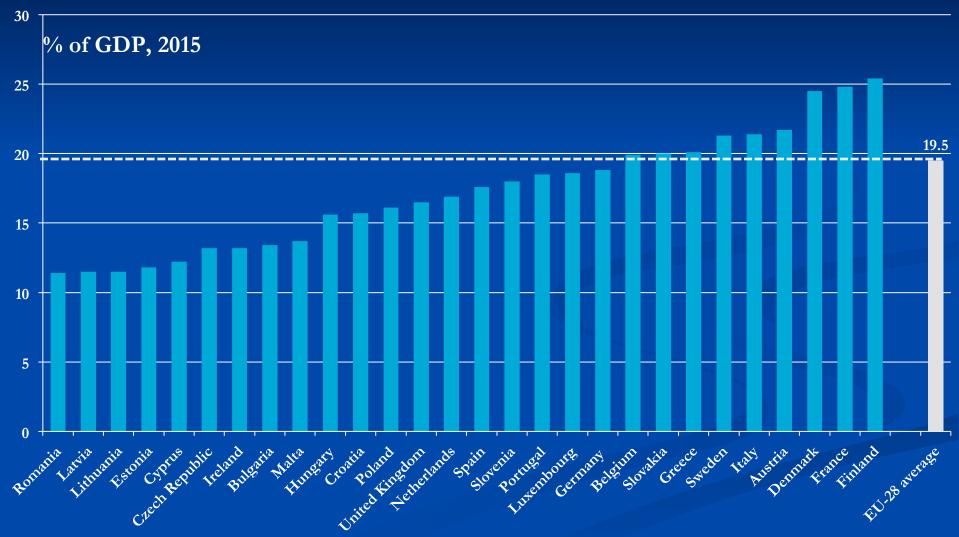
1. Ease Fiscal Burden!

- EU average public expenditures 47% of GDP in 2015; 1/10 of GDP more than in other developed countries
- But 9 EU members have public expenditures of 35-42% of GDP
- Limit public expenditures to 42% of GDP!
- Cut: enterprise subsidies (4.3% of GDP), state administration & excessive social transfers
- Privatize & pursue competitive public procurement
- Reform pension systems

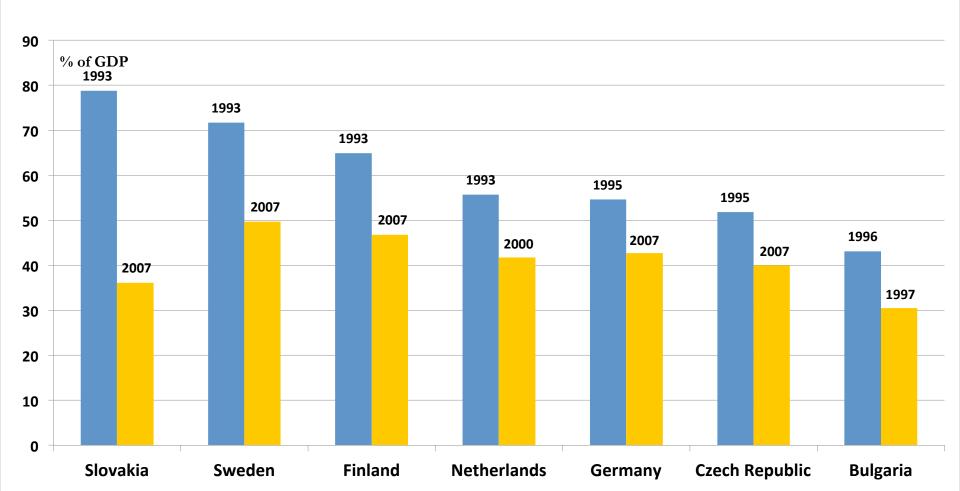
Limit Public Expenditure to 42% of GDP!



Trim Social Transfers in Finland, France & Denmark!



Many EU Countries Have Carried out Major Cuts in Public Expenditures, 1993-2007



2. Open up Services Trade!

- Half of the service market is missing
- Services Directive of 2006 is like a Swiss cheese full of loopholes
- Cost: €330 billion, 1.8% of GDP for 2014-19
- Solution: Expand & reinforce Services

 Directive

3. Open up Digital Trade!

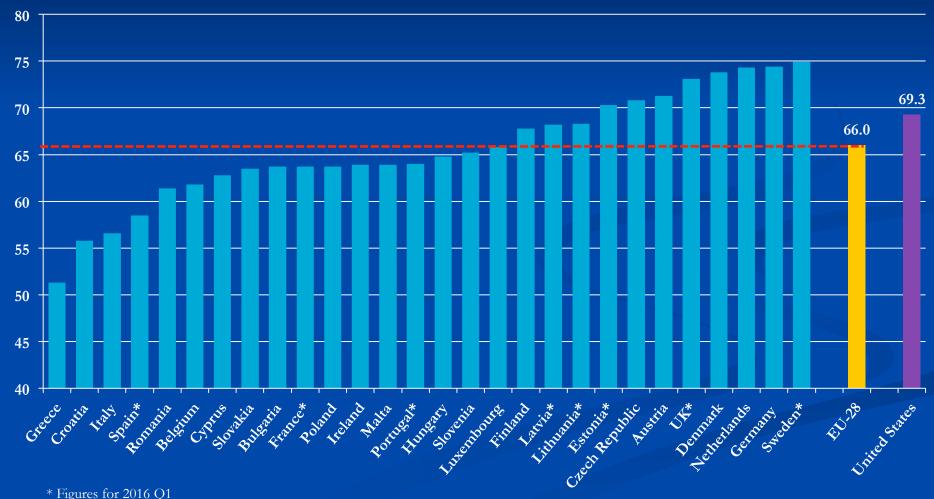
- Missing common digital market
- Cost: €340 billion, 1.8% of GDP for 2014-19
- Solution: Form a common digital market

4. Create Jobs!

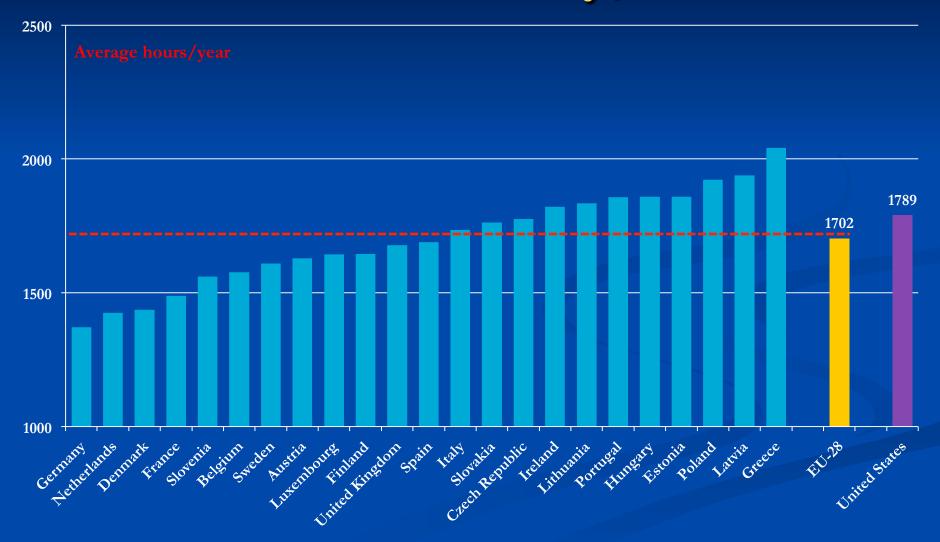
- EU employment rate 4.3% less than in US
- **Less** Europeans work 4.9% hours less in 2015
- EU unemployment 8.6% when 4.6% in US, but also in Denmark, Germany, Ireland & UK

Employment Rate Varies Greatly, 2015 Q4

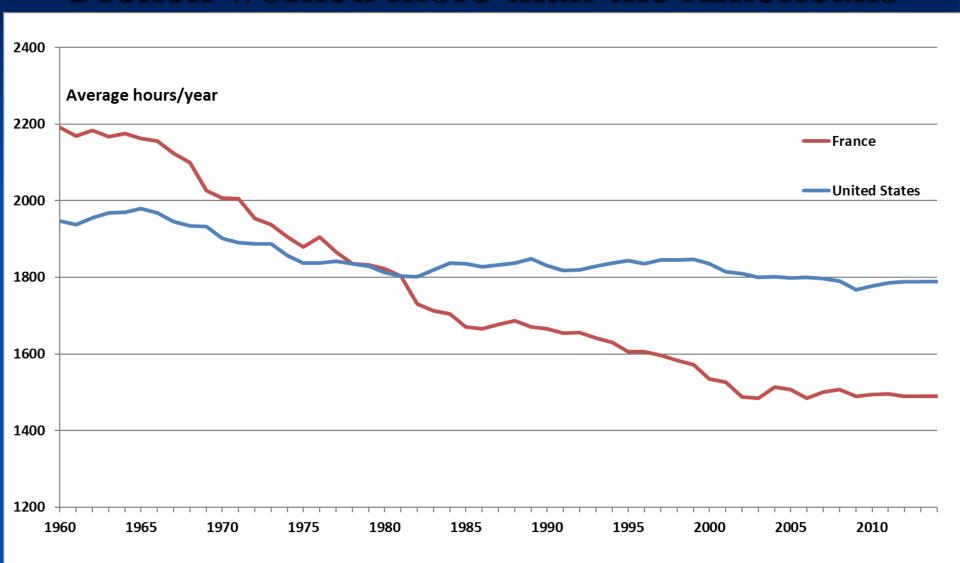
Employment rate, percentage



Average Annual Hours Worked Varies Inversely, 2014



No old cultural differences: Until 1980 the French worked more than the Americans



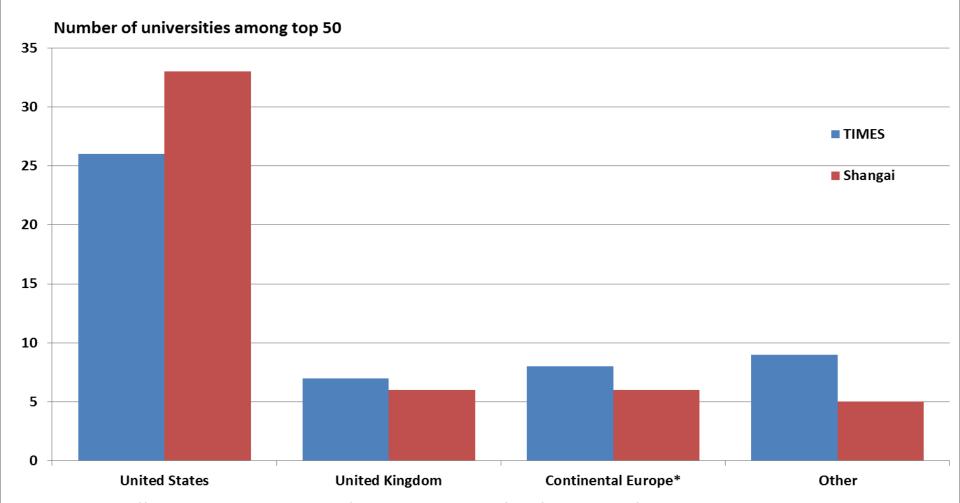
Reduce Burdens on Labor!

- Slash labor tax wedge! Set income & payroll taxes = capital gains tax
- Improve labor market regulation
- More education & vocational training
- Facilitate women's work
- Absorb immigrants better

5. Improve Higher Education & Innovation!

- Continental EU elite universities lagging behind
- Too little research & development: 3% of GDP desired, i1 1.7% of GDP
- Innovative ecosystems required
- Little venture financing & much is public

Only 6-8 Continental EU Universities in Top-50, 2015

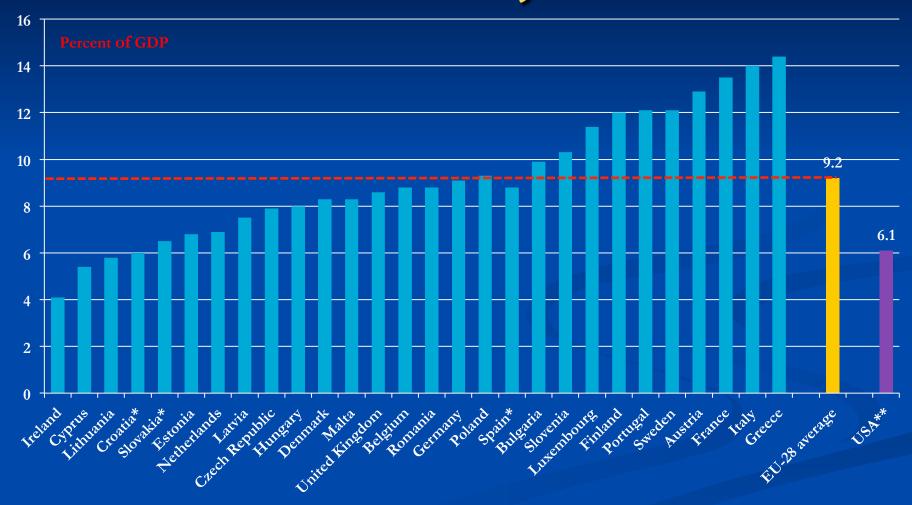


Source: Times: https://www.timeshighereducation.co.uk/world-university-rankings/2015/world-ranking#/; Shanghai: http://www.universityrankings.ch/results/Shanghai/2014?ranking=Shanghai&year=2014®ion=&q=&s=50.

6. Reform Pensions!

- Public pensions are excessive: Reduce cost from 9% of GDP to 8% of GDP on average
- Rein in early pensions
- Render public pensions actuarially correct & transparent
- Develop mandatory private pensions
- The Dutch model is the best

Public Pensions Too Costly in 10 Countries, 2013



7. Complete EU Energy Union!

- EU third energy package 2009: real marketization for gas & electricity
- Support competitive infrastructure & oil & gas supplies from US
- Privatize remaining state energy companies
- Stop monopolistic designs such as Nord Stream 2

Conclusions

- All these reforms can and should be done
- Some EU countries are among the foremost in the world in each regard
- Thus, EU regulations are no hindrance
- The primary responsibility lies with national governments
- EU's job: reinforce the single market
- EU countries can raise their growth by 1% a year through structural reforms

