

### France Assesses Costs & Benefits of EU Membership

*The Single Market & Single Currency haven't made any difference, says official French report. "Europe's economy's a failure, & it's all the fault of the EU system of governance". The solution ? "More Europe, naturellement".*

The main authors of the March 2006 report of the *Conseil d'Analyse Economique* (see box) on "*Economic Policy & Growth in Europe*"\* are Philippe Aghion, a Harvard professor; Elie Cohen, research director at Sciences-Po; and Jean Pisani-Ferry, director of the Bruegel Institute in Belgium and professor at Paris IX-Dauphine. There are complementary essays by another ten equally-prestigious economists. The report consists of 300 pages of closely-argued analysis of the EU's economy: diagnosis, conclusion and recommendations.

#### *Failure Diagnosed.....*

At the back is a seven-page summary in English, which begins:-

*"...the USA enjoys faster economic growth than the euro area and ....continues to maintain a higher standard of living...the following analyses are generally proposed to explain the persistence of these gaps:*

- *Europe's weaker economic performance is due to Europeans' preference for leisure as opposed to work...*
- *Europe suffers from weaker demand that may be attributed to a history of restrictive macroeconomic policies;*
- *The dominant analysis maintains that Europe's growth lag is the result of a combination of incomplete economic integration and insufficient structural reforms among the member states, particularly reforms in labour, goods and services markets;*
- *The last explanation is that the problem is not so much with "Europe", but with Germany, France and Italy. These countries, unlike the smaller and faster-growing members, are unable to make the necessary reforms....*

*The authors do not systematically reject the above explanations but feel that no single one is satisfactory...for the authors, **deficiencies in the EU's economic policy system** are a main cause of inefficiency and slower growth...."*

The authors describe the "EU's economic policy system" as the combination of the division of powers between the various 'agents' (vertically between Brussels and

the member states, horizontally between EU institutions); of the objectives assigned to each of the ‘agents’; of the associated control mechanisms; of the procedures of coordination (or their absence) between ‘agents’; and finally the recommendations or instructions or exhortations or signals that the economic policy leadership addresses to these ‘agents’ (page 25 of the main text). The economic principles on which the system is constructed, as well as the economic signals it emits, are “*dysfunctional*” (page 39).

The authors refer to the “*disturbing*” conclusions of recent OECD and IMF studies which point out that when it comes to market liberalisation, the EU has neither done more, nor moved faster, than other developed and less-developed countries (page 42). They conclude (page 63) that “*analysis of structural indicators for markets in goods, labour and capital do not suggest that EU membership has had a significant impact on the nature of or the speed at which reforms have been carried out. The EU has simply been part of a wider movement...*”

To return to the English summary:-

“*...no sudden burst in the trade of goods and services has been observed since the Single Act entered into effect in 1993, nor since the euro was introduced in 1999, as was seen [in North America] after the NAFTA agreement was signed in 1989. The price convergence that EU monetary union was supposed to bring also did not occur, and convergence even came to a standstill in 1999.....The authors believe that these problems may largely be attributed to **the EU’s institutional shortcomings.**”* .....“*Economic integration has stagnated and no longer promotes growth. The euro’s creation has not produced the knock-on benefits expected.*”

On page 268, at the end of her chapter on “The effects of the euro on trade flows”, Narcissa Balta (one of the ten complementary contributors to the report) observes ruefully that “*The actual experience of the euro is the **opposite** of that predicted by [monetary union] theory..... there is a [minor] positive impact of the euro on exports **from** non-member countries **to** the eurozone (but not in the other direction)...it’s as if the euro has worked as a one-way valve*”. (Incidentally, discussing trade data, she mentions the “Rotterdam [-Antwerp] Effect”, confirming that this statistical distortion is not just a British concern.)

Concluding their diagnosis, the authors say (page 130): “*We are convinced that the situation we describe is **perilous**: the inability of the EU to revive the economy turns investment away from the continent; persistent under-employment and anaemic growth undermine social provision; and the combination of intractable economic problems, poorly-managed enlargement and a manifest exhaustion with community procedures all threaten to trigger a vicious circle which will unravel the *acquis communautaire*.*”

.....*but no cure in view*

Despite pinning the blame for the malady squarely on EU governance in its widest sense,

*“...the authors do not however recommend changing the current institutional framework since they feel that attempting institutional changes would be costly and not very realistic...”*

And, having brilliantly and conclusively exposed the cause of the EU's economic problems - the EU itself - the authors' solutions for the EU turn out to be even more EU.

Their recommendations are: more economic integration, (essentially “deepening” from Brussels); “reforming” the economic governance of the eurozone (essentially diluting its anti-inflation policies); and improving the interaction between “structural” policies and macroeconomic policies (essentially by creating yet more “coordinating” committees – pages 150 *et seq*).

One example: control of university education would be removed from member states and run by Brussels, under a “European Research Council”, the objective being to “*promote the emergence of ten or twenty world-level teaching and research universities*” – financed of course by Brussels. [This could take some time: Harvard, the world's number one, is almost 400 years old; Cambridge, the world's number two, almost 800 years old. And, at page 171, the report points out that “*The former East Germany has been heavily subsidised for 15 years with no decisive impact on either its growth rate or its labour market*, bringing to mind Keynes' famous remark: “In the long term we'll all be dead”.]

Some in the City may still not believe that Paris is genuinely determined to de-throne London from its pre-eminent position as **the** European financial centre. Let them inspect the evidence set out on page 164, where Philippe Herzog, a former French MEP and now professor at Paris-X Nanterre, discusses “*the risk [sic !] of a euro-atlantic ensemble dominated by New York and London*”, and poses the question, in all seriousness: “*Is London's quasi-monopoly of financial services good for growth in Europe ?*”

*\*Politique Economique et Croissance en Europe*, Aghion, Cohen, Pisani-Ferry, ISBN: 2-11-006149-9, March 2006, available in pdf at [www.cae.gouv.fr](http://www.cae.gouv.fr). Available as a paperback from : La Documentation française, 29-31 quai Voltaire, 75344 Paris Cedex 07, Tel: 00 33 1 40 15 72 30 [www.ladocumentationfrancaise.fr](http://www.ladocumentationfrancaise.fr).

The *Conseil d'Analyse Economique* is a bit like a supercharged No 10 Policy Unit. It has its own permanent staff and its own office, on the Left Bank not far from the Matignon, the official residence of the Prime Minister. Its part-time members comprise about 40 of France's best-known economists from both the public and the private sectors, including a couple of dozen university professors, the director of the INSEE (the equivalent of the UK's Office for National Statistics) and mandarins in charge of departments at the Banque de France and at various ministries. The president of this eminent body is the Prime Minister himself, Dominique de Villepin. This, in short, is a serious outfit.