ONE EUROPE OR SEVERAL?
CAUSES AND CONSEQUENCES
OF THE EUROPEAN STAGNATION

Jan Fagerberg, Ålborg University, University of Oslo, &
University of Lund, www.jan.fagerberg.org
Bart Verspagen, UNU-MERIT, University of Maastricht

For presentation at the 15th ISS Conference, 27-30 July, 2014, Jena, Germany

To be published in Jan Fagerberg, Staffan Laestadius and Ben Martin (eds.): The
Triple Challenge for Europe: Economy, Climate Change, Governance, Oxford
University Press (forthcoming)
Aims and background

• The global economy: From “lost decade for development” in the 80’s to “catch-up boom” in the 2000s.
• Europe: Dismantling of the Soviet empire, unleashing of talent and resources, rapid growth/catch-up in Eastern Europe from the 90’s onwards
• Result: A dynamic Europe: Economic integration, enlargement, deepening (internal market, EURO), but
• The financial crisis 2008 unleashes the European Stagnation. Why? And why does it linger on?
• Is it simply the unavoidable consequences of a “Spending Spree”? Or are there deeper reasons?
• This is the theme of this paper, which mainly focuses on the period leading up to the crisis
Growth of GDP per capita 1995-2008

Data Source: World Bank
Growth of GDP per capita 2008-2011

Data Source: World Bank
Problem due to excessive wage growth?

Not really: Growth of Wages and Productivity, 1995-2008

Source: WIOD (World Input-Output Data Base)
Spending spree? Growth of Private Consumption and GDP, 1995-2008

The same holds for public consumption, investment etc

Source: WIOD
One big difference though:

Exports as a share of GDP level versus change, 1995-2008

Source: World Bank

Southern Europe: Left behind in the globalization race
External imbalances emerge: North, East & South

Current account surplus as a percentage of GDP, 1995-2008
Source: IMF

Source: WIOD
The European Divide

• A long run phenomenon, visible long before the crisis struck
• Not caused by exceptional macro-economic behavior in Southern or Eastern Europe
• Southern deficits: Evolved in spite of slow growth
• The Eastern deficits: Results of an investment boom (inflows of foreign capital), quite normal in catching up economies
• European integration (internal market, Euro) intended to spur growth, (how) did it work?
Where did the growth-inducing demand originate? Growth of GDP, 1995-2008

Source: WIOD
European integration: Asymmetric effects

- The major beneficiary of European integration prior to the crisis was Eastern Europe.
- Northern Europe also benefited.
- Southern Europe benefited very little if at all.
- Apart from Eastern Europe, demand from the rest of the world more important than demand from Europe.
- What were the consequences of these effects for the external imbalances (value added trade balance: difference between “exported” and “imported” GDP) that evolved?
Changes in the value added trade balance as a % of GDP, European regions, 1995-2008

Source: WIOD
Heterogeneous Europe: Policy failure

- **Northern Europe**: Advanced countries that grow slowly (austerity), highly **internationalized**, trade surpluses
- **Eastern-Europe**: Catching-Up economies (first and second tier), grew rapidly, internationalizing, **hard hit by the crisis**
- **Southern Europe**: Least internationalized countries in Europe, competition from China etc., trade deficits, slow-growing, hard hit by the crisis, **falling behind**?
- **Europe**: On the path towards divergence?
- The **Euro**: A **flawed** arrangement supporting **austerity**
- The need for a (new type of) **European growth policy** that supports growth in **all parts of Europe**