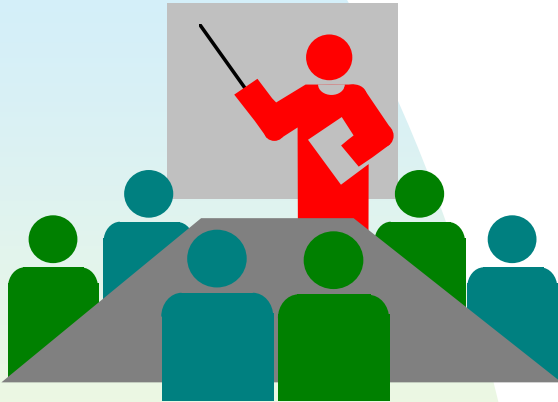


# The Great Recession & Eurozone Governance

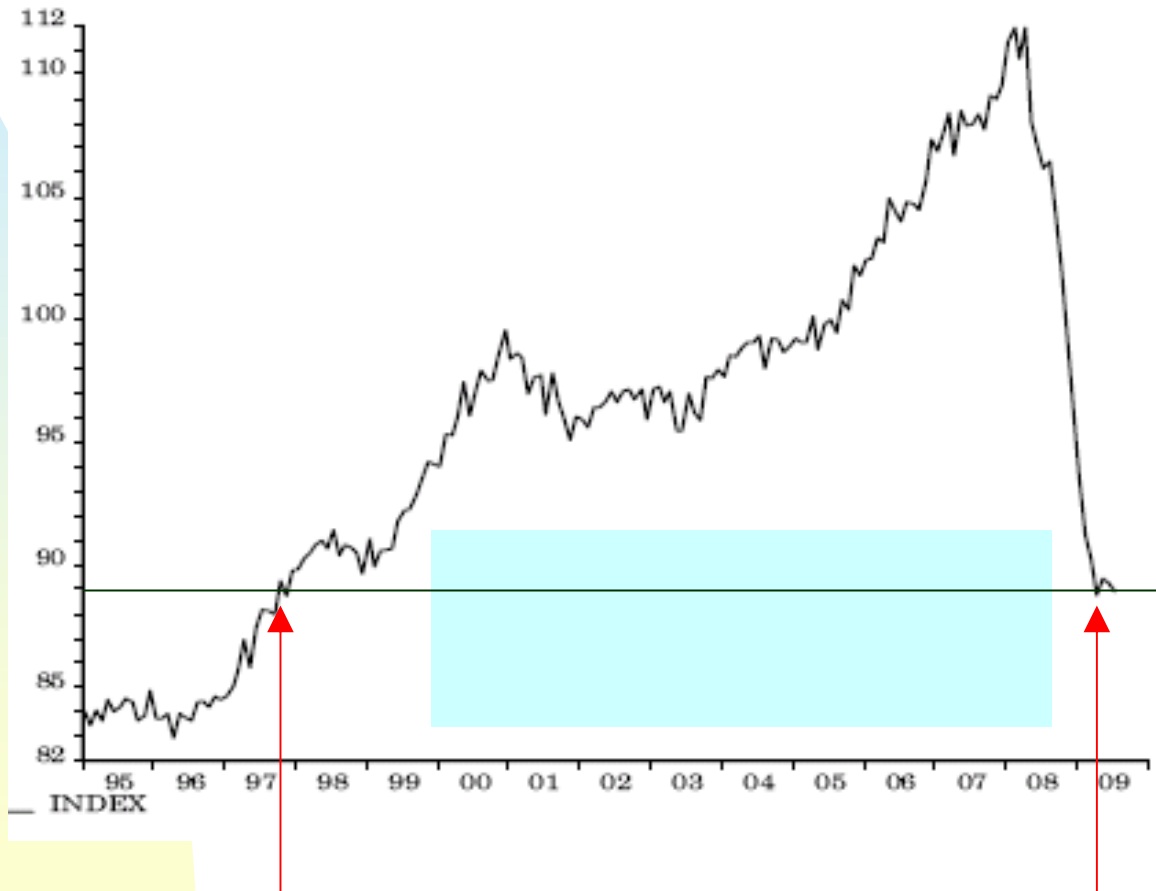
---



**George Irvin**  
**Professorial Fellow**  
**University of London (SOAS)**

# The Great Recession

**EU Industrial output has fallen 25% from peak**



source: GFC Economics, 18 Sept 2009

# Short term Future is not Bright!

EU Industrial Output has fallen 25% relative to 2007 peak and things look bad!

## Eurozone-16

### Real GDP Growth

2008 2009 2010

0.7 -4.2 0.3

### Consumer Prices

2008 2009 2010

3.3 0.3 0.8

### Unemployment

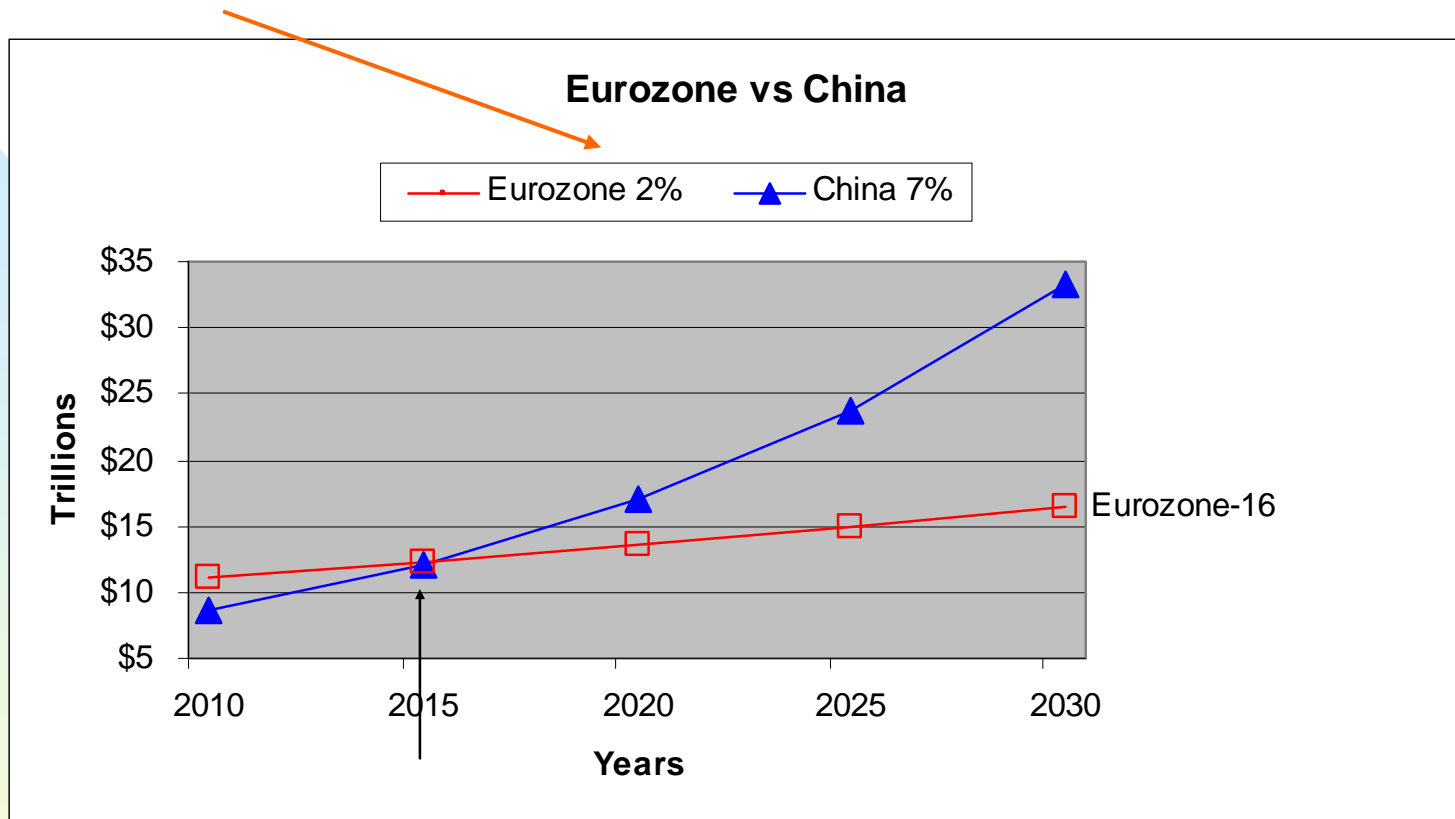
2008 2009 2010

7.6 9.9 11.7

Source: IMF World Econ Outlook (Oct 2009)

.... but where will Europe be in 2030??

# Eurozone vs China in 2030



Source: World Bank (2009); all figures at PPP

**EU will need to be Federal**

# Four Reforms for long-term Future

## 1. **Make ECB similar to US Fed**

- To 'inflation target' add 'growth, employment & welfare' (in sense of Human Development Index)

## 2. **Investment in 'green' economy**

- More important than Lisbon 'competitiveness' goals; means greener transport, housing; energy generation et al

## 3. **Eurozone-wide basic pension**

- Give Europeans a real 'stake' in EU; finance using (say) 0.5% FTT

# The Fourth Reform

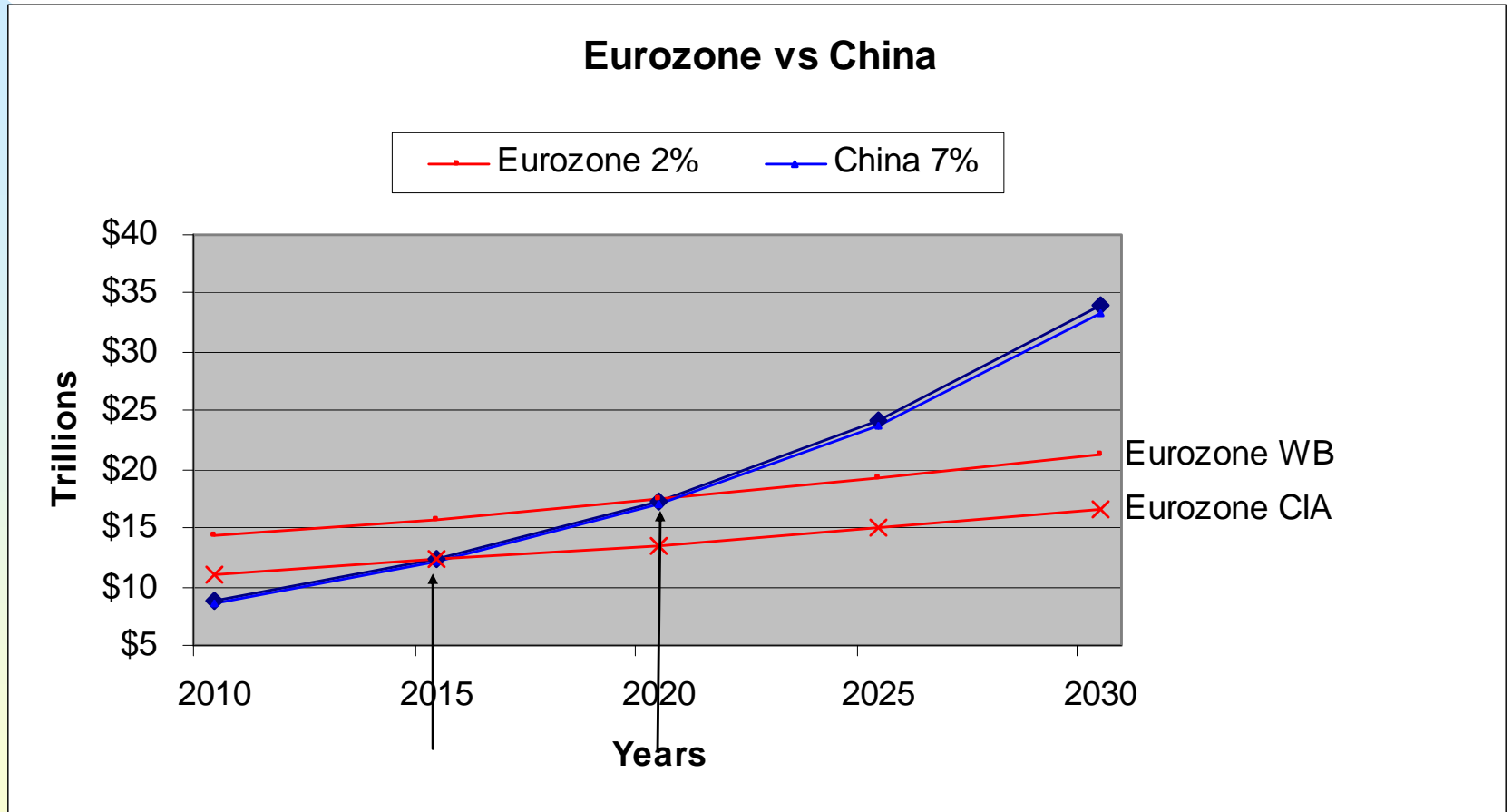
## 4. **New Eurozone Treasury**

- Counter-cyclical EU budget of 4-5% EU GDP (McDougall, Goodhart):
  - finance by:
    - EU borrowing on world market (extra 1% GDP)
    - ECB *seigniorage* (extra 1% GDP)
    - Own resources: progressive % of member states VAT + FTT (extra 1-2% GDP)

# Suggested Reading

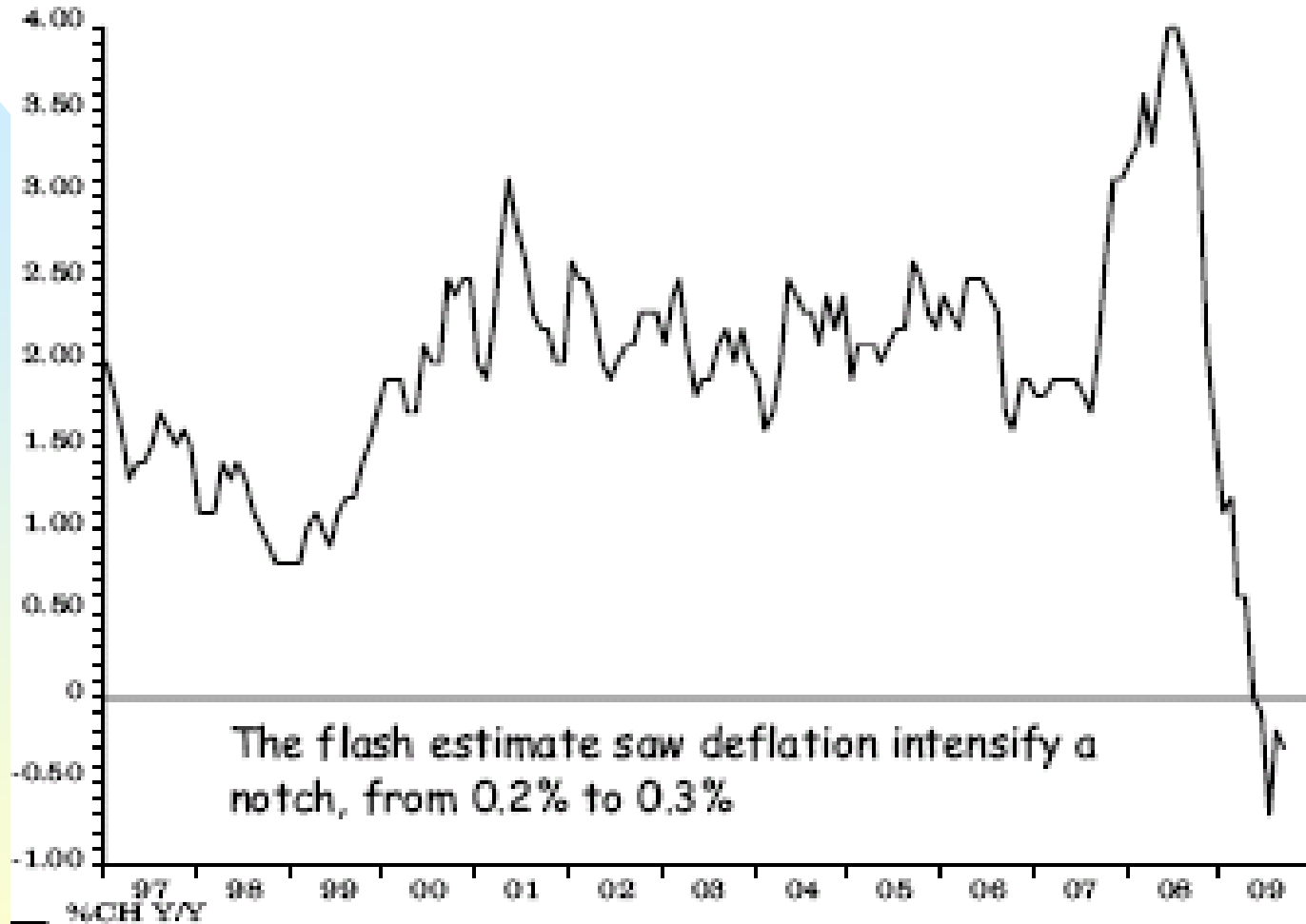
- De Grauwe, P (2003) 'The SGP in need of Reform' Dept. of Economics, University of Louvain.
- Eichengreen, B and K O'Rourke (2009) 'A Tale of Two Depressions' referenced in Martin Wolff 'The Recession tracks the Great Depression', *Financial Times Economistsforum*, June 17, 2009.
- Goodhart, C. A. E. (2006) 'Replacing the SGP?', Draft paper to the Franklin Conference on the Future of Europe, Lugano, 2–4 March.
- Irvin, George (2006) *Regaining Europe: an economic agenda for the 21<sup>st</sup> century*, London: IB Tauris
- Koo, R (2008) *The Holy Grail of Macroeconomics*, Singapore: J Wiley & Sons.
- Roubini, N (2009) 'Green shoots or yellow weeds' *Roubini's Global Economist*, 9 June 2009.
- Wyplosz, C (2009) 'Transatlantic divergence in tackling the crisis' <http://wyplosz.eu> (viewed 3-6-09)

# Eurozone v China in 30 years



Source: CIA yearbook (2009); World Bank (2009); all figures at PPP

# Risk of Deflation (HICP)



source: GFC Economics, 2 Oct 2009