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Jean-Paul Fitoussi

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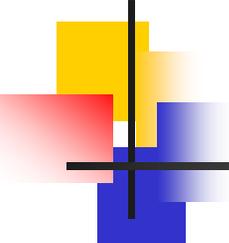
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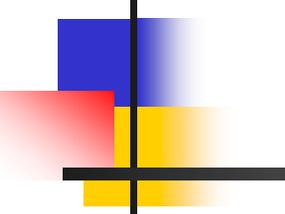
# Local systems, Europe and globalisation: How to get it right ?



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Jean-Paul Fitoussi  
*Professor, IEP Paris*  
*President, OFCE*

« Culture and Knowledge:  
Local Systems in a Global Context »  
*European Colloquia*  
*Prague, November 30th 2006*



# I - Prolegomena

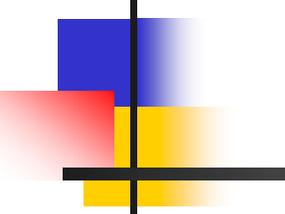
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## *Globalisation*

The phenomena of globalisation is happening in a world populated by nation States, without any emptiness in between the Nations.

What is the function of a Nation state if not to protect its population ?

More than ever the Nation States of the world are well and alive – the hyper power of the United States, the super power of China, Russia, India, etc...



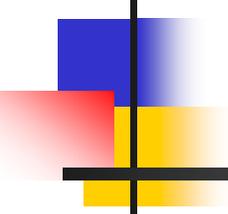
# I - Prolegomena

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## *Globalisation*

Hence the rhetoric of globalisation clashes with the reality of the phenomena as power and protection are putting strict limits on the interplay of free markets.

The European Union is a case of its own: it is populated by nations which are no more full states – as they have given up important elements of sovereignty especially in the euro area – and the Union is not yet a full state.



# I - Prolegomena

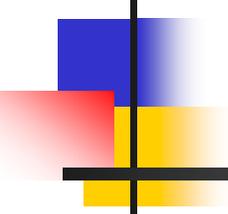
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## *Globalisation*

Hence the concern among the European populations about protection. Protection is not protectionism. Indeed, it is the main incentive for people to live in society.

Besides each nation is organized in several territories which constitute themselves local systems of protection.

In other words some of the protection is delegated to local systems.



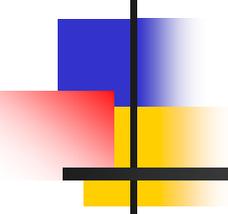
# I - Prolegomena

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## *Glocalisation*

But local systems have a dynamic of their own, just because they are the places where people live. From that came the idea of glocalisation, meaning that what matters is the direct link between the territories and the world.

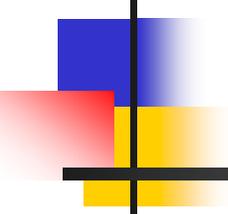
I do not subscribe to this idea. The local system, the country system and the european system are narrowly cooperating – or so it should be – to increase the welfare of the citizens (which are all living in local systems).



# I - Prolegomena

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Hence the title of this congress, « *La cultura e la conoscenza: sistemi locali in un contesto global* » is both right and wrong.



## II – The short run

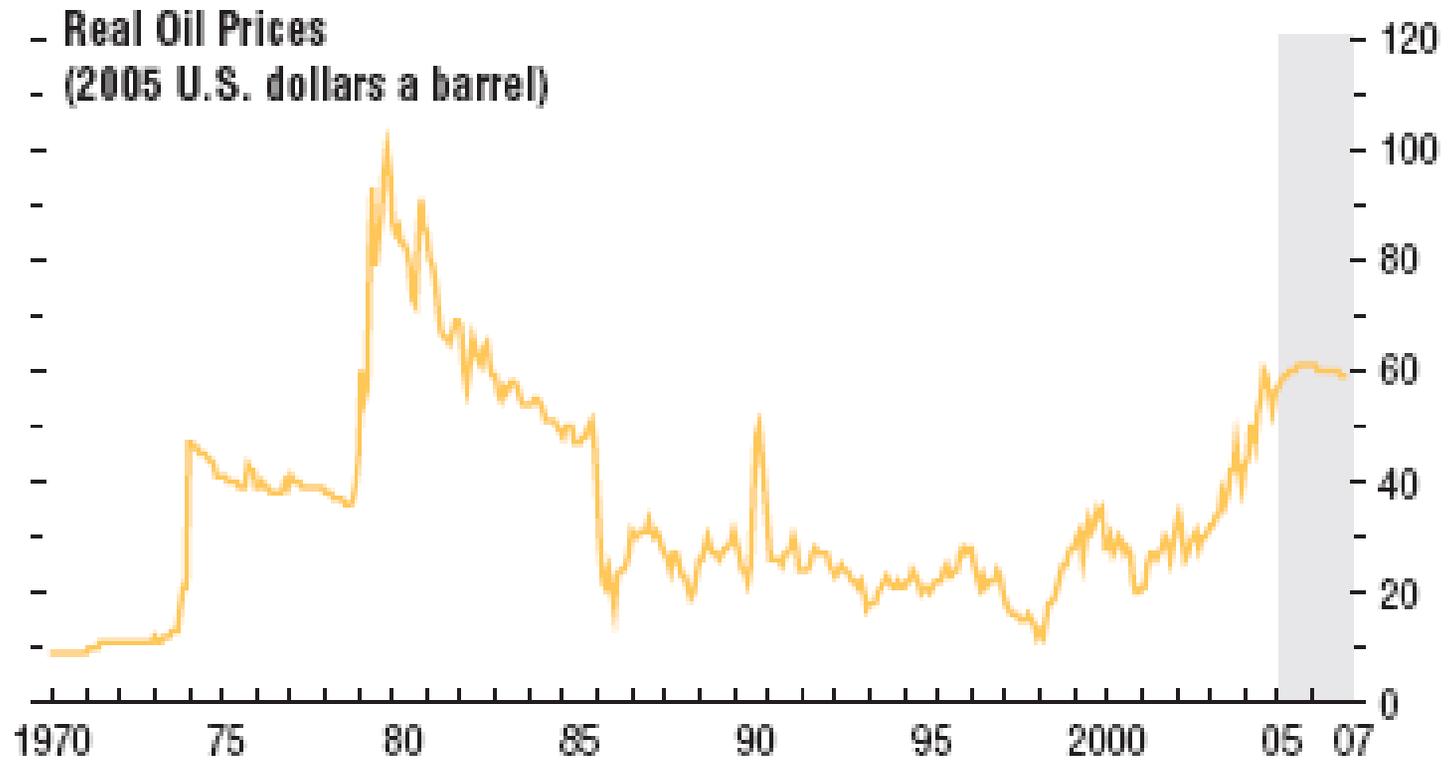
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- Forecasts 2006/2007
- Real oil prices
- Relative stability of the dollar

# Forecasts 2006/2007

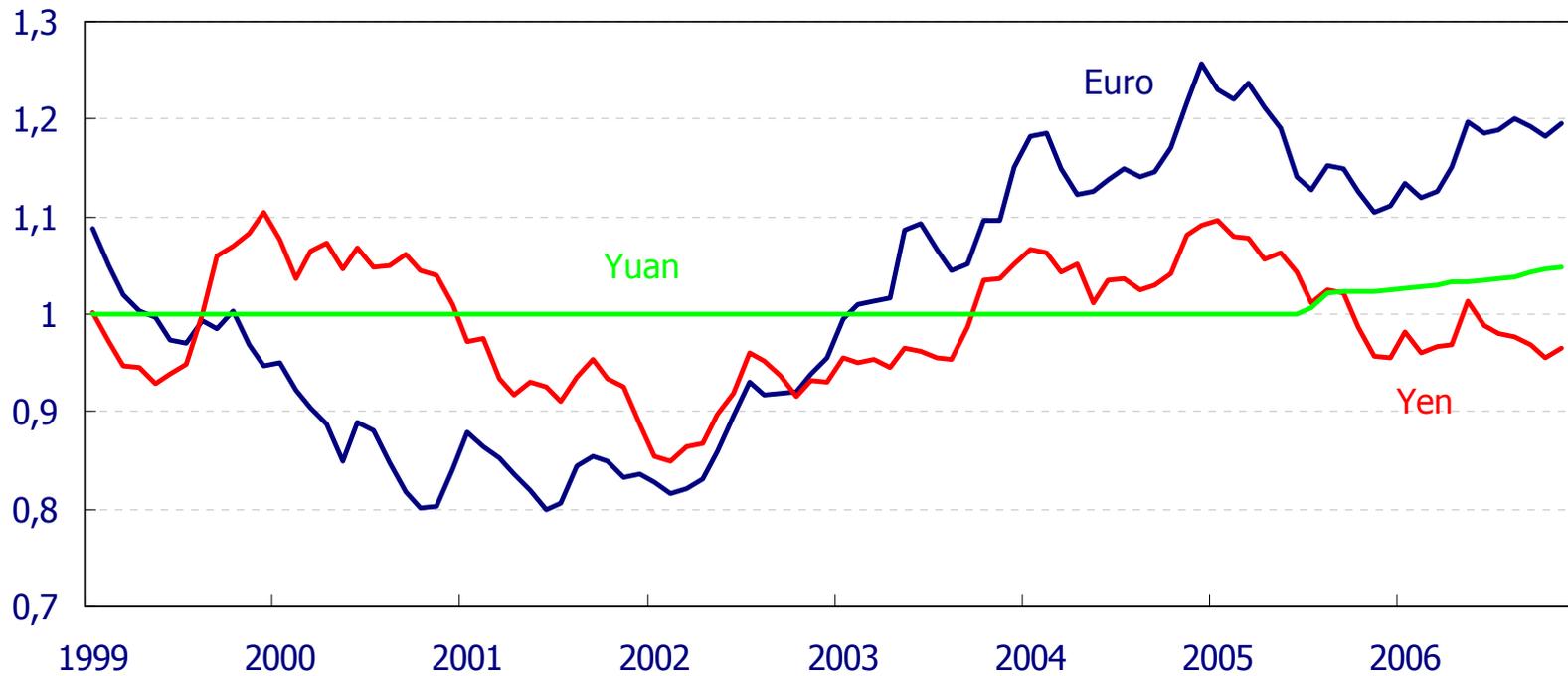
	Weight	2005	GDP (in volume) 2006	2007
Germany	4.4	1.1	2.3	1.9
France	3.2	1.3	2.3	2.2
Italy	3.1	0.1	1.6	1.4
Spain	1.8	3.5	3.6	2.7
<b>Euro Zone</b>	<b>15.7</b>	<b>1.4</b>	<b>2.5</b>	<b>2.2</b>
England	3.1	1.9	2.7	2.5
<b>European Union (15)</b>	<b>19.7</b>	<b>1.5</b>	<b>2.2</b>	<b>2.0</b>
10 new countries	1.8	4.3	4.8	4.3
<b>European union (25)</b>	<b>21.5</b>	<b>1.7</b>	<b>2.7</b>	<b>2.3</b>
U.S.	21.2	3.2	3.2	1.9
Japan	7.1	2.3	2.8	2.5
<b>Industrial countries</b>	<b>54.2</b>	<b>2.3</b>	<b>2.7</b>	<b>2.0</b>
Russia	2.7	6.3	6.3	5.2
China	12.7	9.9	10.3	9.0
Other asiatic countries	13.5	5.8	5.9	5.8
Latin America	7.9	3.9	5.0	4.1
Africa	3.2	5.4	5.4	5.4
Middle East	3.1	5.7	5.8	5.2
<b>World</b>	<b>100.0</b>	<b>4.3</b>	<b>4.5</b>	<b>4.2</b>

# Real oil prices

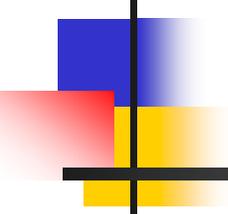


Source: World Economic Outlook, IMF, April 2006.

# Relative stability of the dollar?



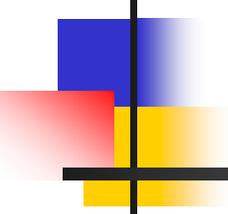
Source: Financial Markets, BCE, 2006 et calculs OFCE.



# III - The long run

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- GDP Trends 1990-2006
- Assessing European economic performances
- GDP per capita (PPP)
- The widening of the gap : GDP growth



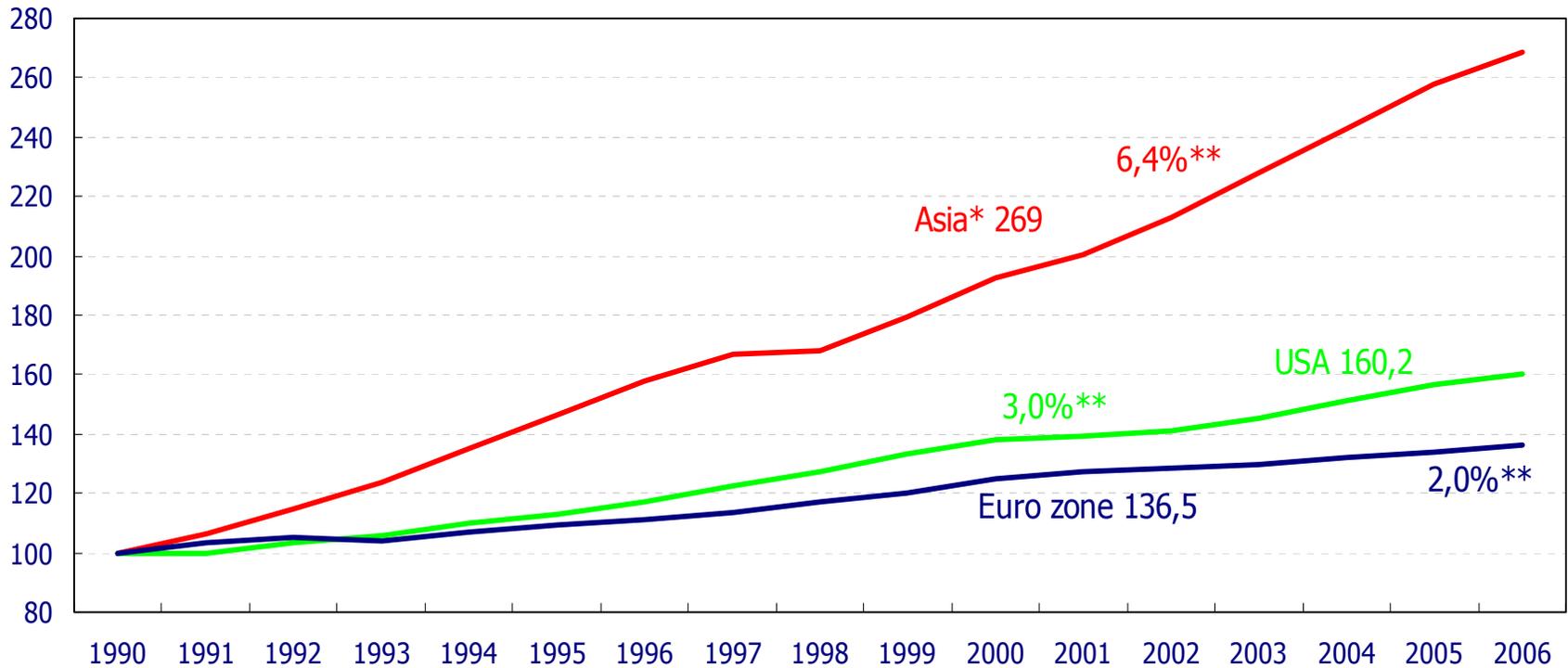
## III - The long run

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If we look ahead, the most likely evolution would be the following:

- The share of Asia in the world GDP will importantly increase
- The share of the US will increase in the OECD GDP
- The share of the euro area will decrease at the world level, at the OECD level and at the European level

# GDP trends 1990-2006

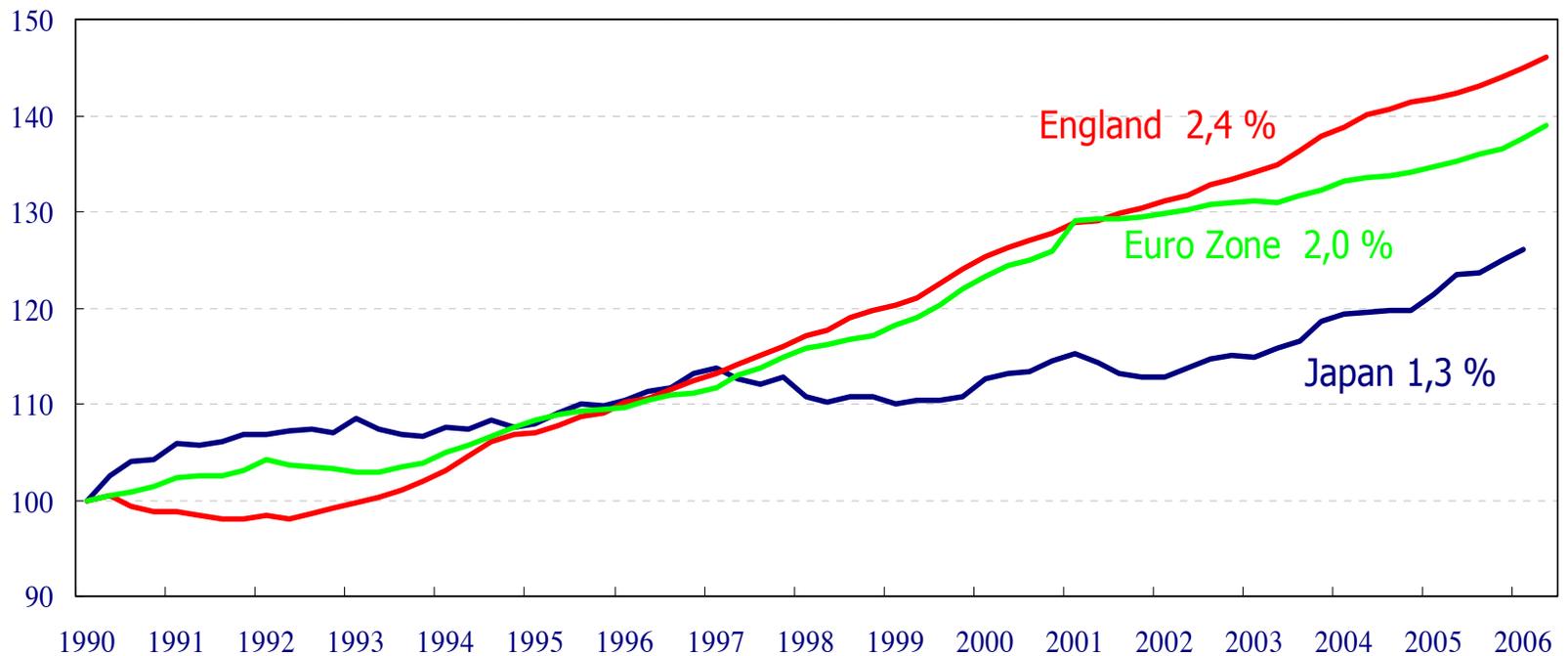


\*Asia includes China, India, South Korea, Taiwan, Hong Kong, Singapour

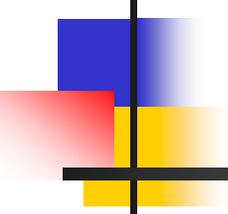
\*\* Average growth 1990-2006

Sources : Banque Mondiale & OCDE.

# GDP Trends



Sources : OCDE-PIE.



# Assessing European economic performances

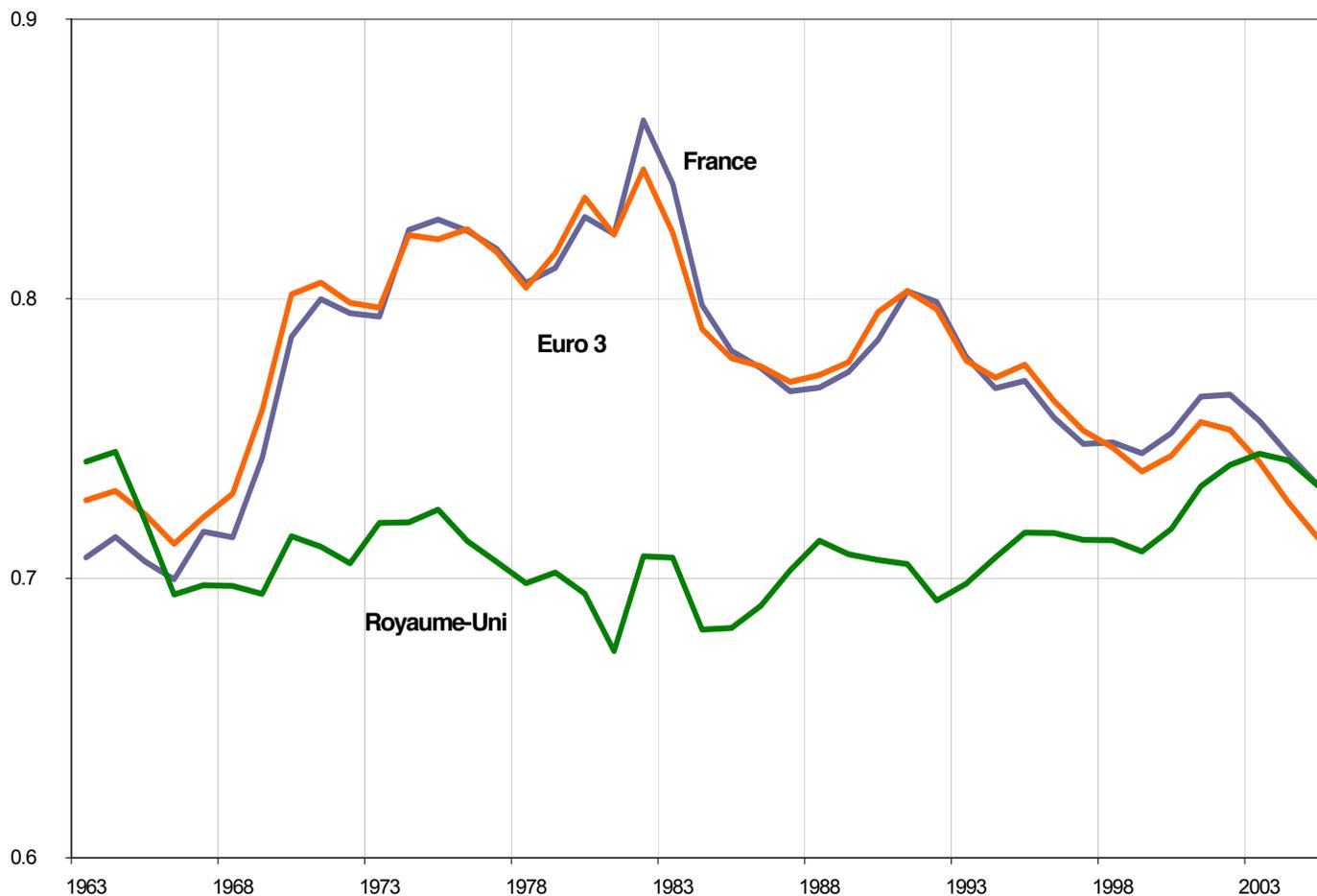
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*Can such evolutions be avoided ?*

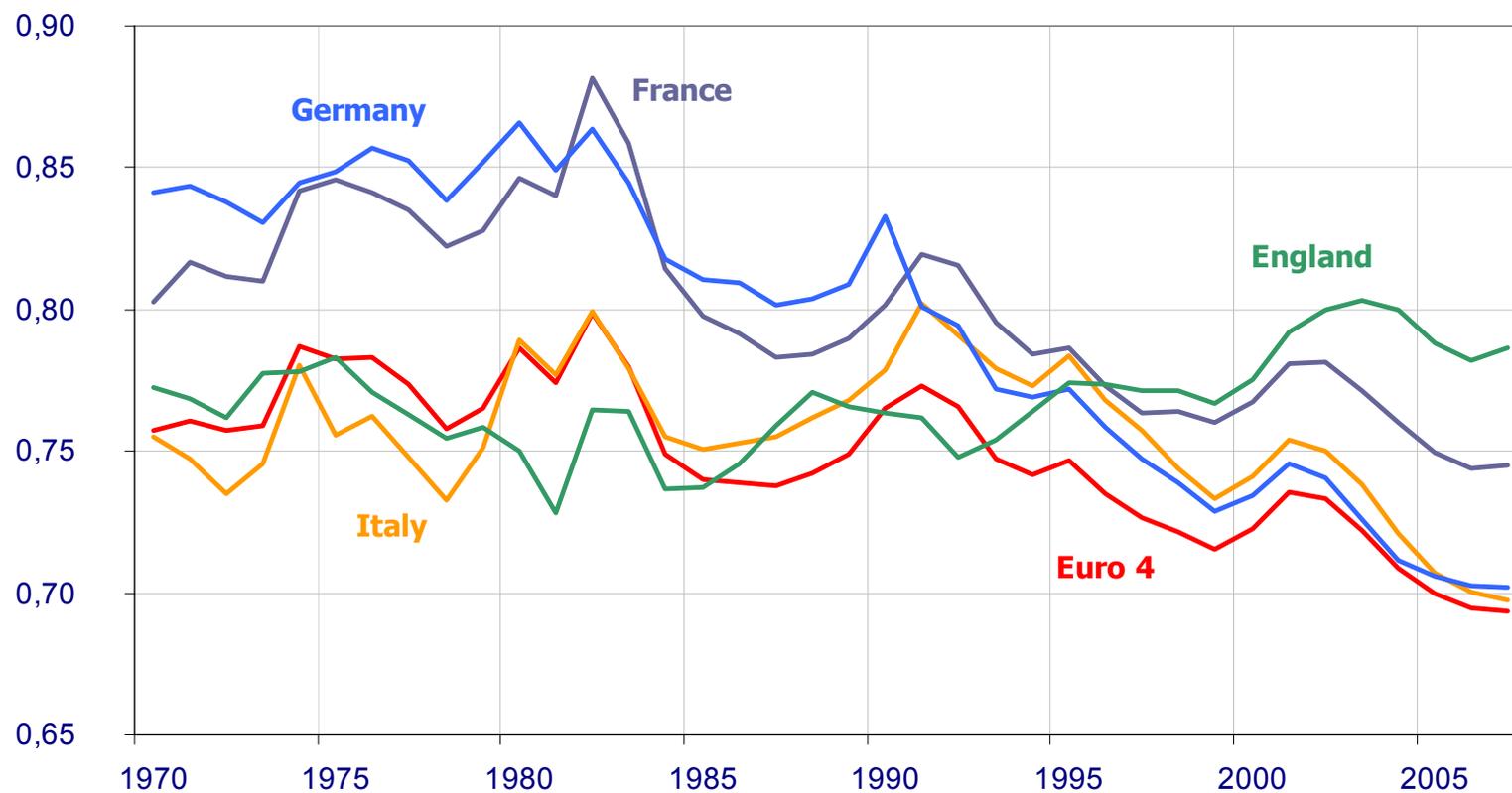
The increase of the share of Asia is utterly normal, but the decrease of the share of the euro area is pathological. What are the reasons and how can it be avoided?

Since the beginning of the 1980s, European Economic performance has been poor. The catch-up process *vis-à-vis* the US has come to a term at the beginning of the eighties.

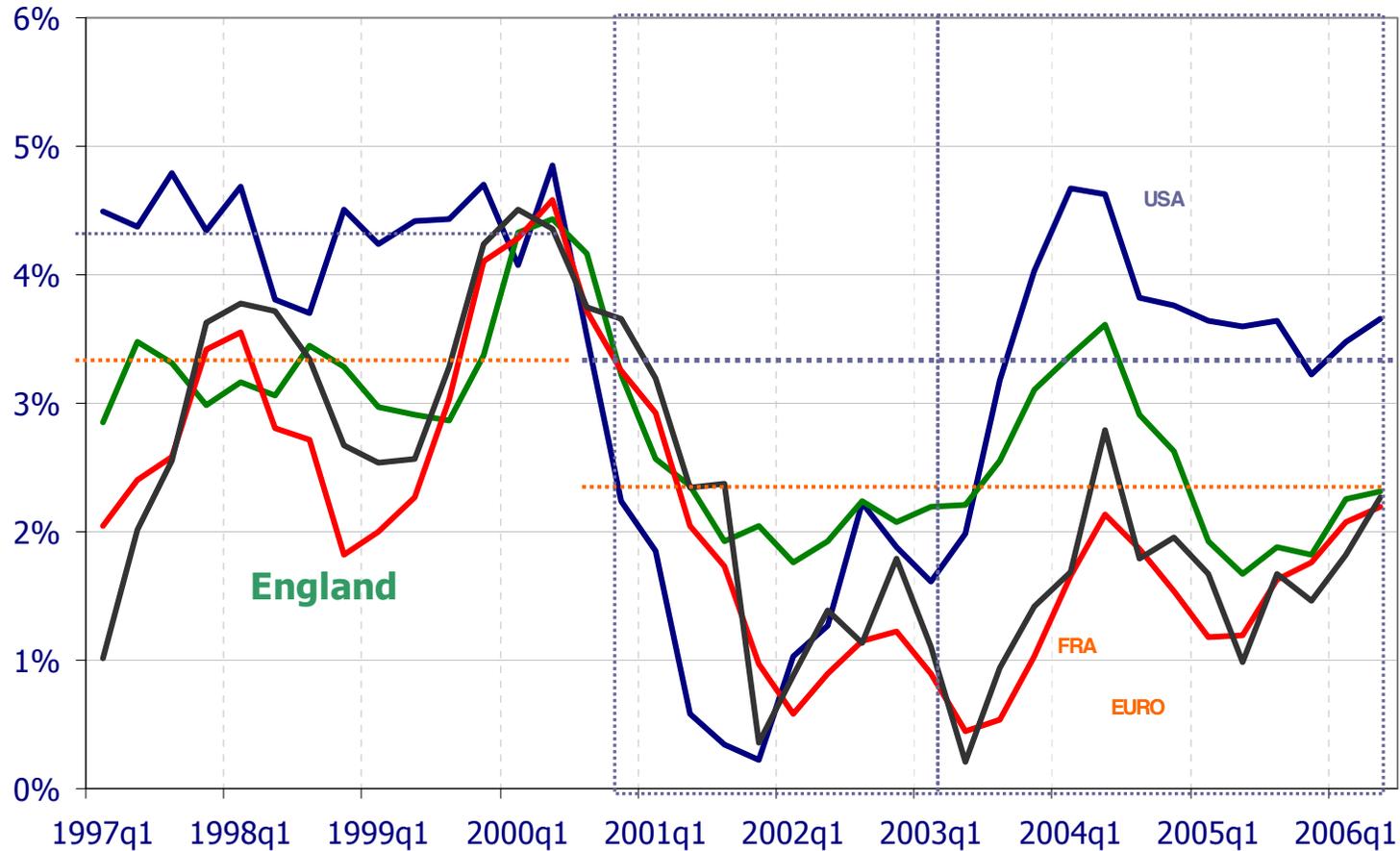
# GDP Per capita (PPP)

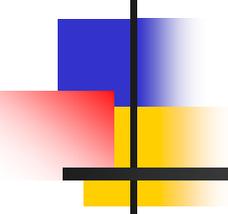


# GDP Per capita (PPP)



# The widening of the gap : GDP Growth





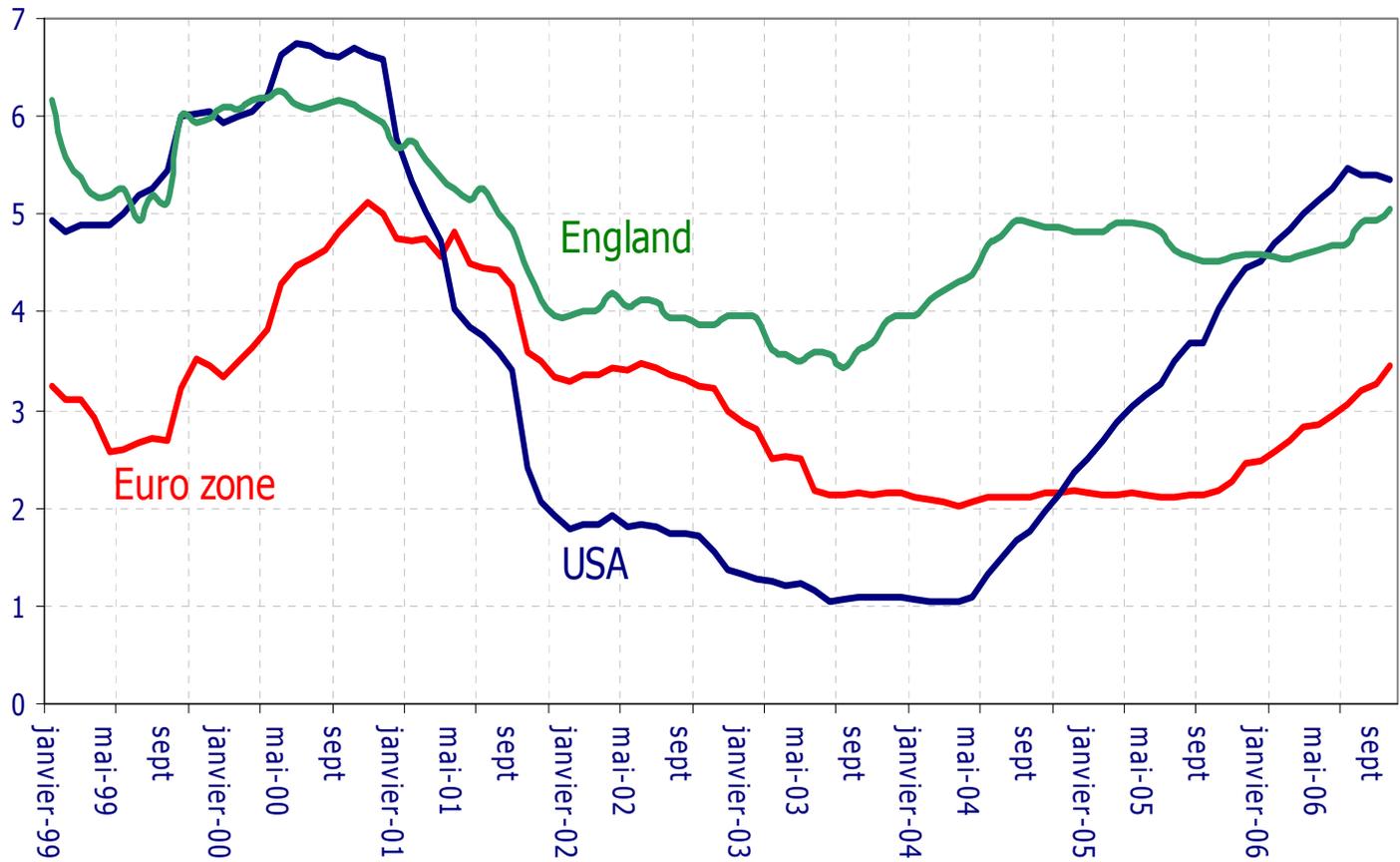
## IV – What's wrong with the european government

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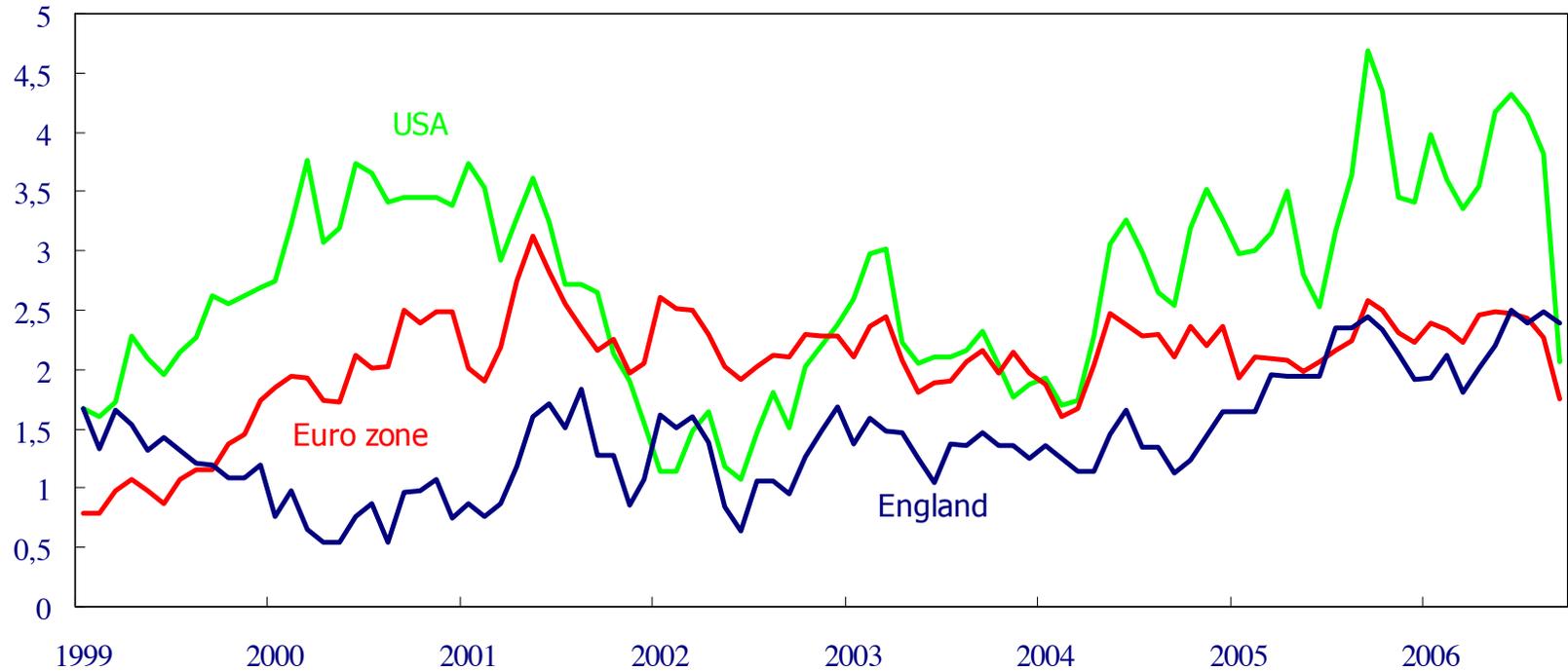
- The monetary policy of the ECB
- Consumer prices index

# And now ? The monetary policy of the ECB

Apparently, the monetary policy of the ECB has been successful



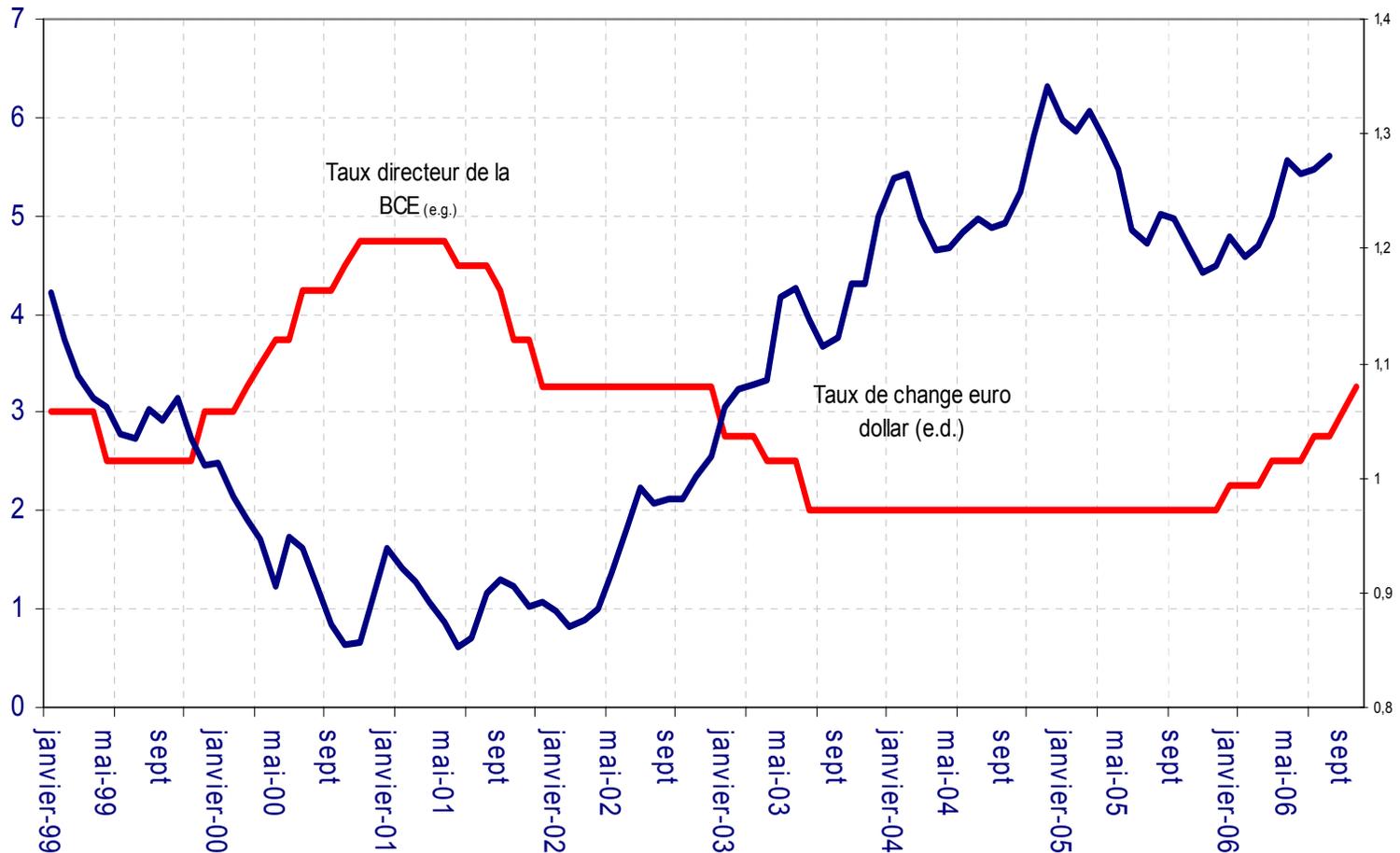
# Consumer prices index

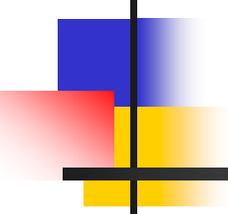


Sources : OCDE-PIE.

# And now?

But in actuality, it has been a policy of benign neglect *vis-à-vis* the exchange rate



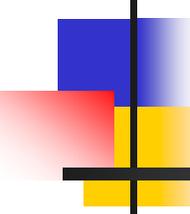


## Macroeconomic policies & industrial strategy

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This monetary strategy seems all the more detrimental that the level and the evolution of the exchange rate impact on the industrial structure.

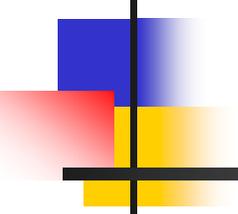
One of the main determinant of industrial policy is the exchange rate, especially in sectors characterised by increasing returns.



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The difficulty is compounded by the fact that Europe has no growth policy, and in particular no policy to react to the slowdown of internal demand.

Fiscal policy is a case in point.



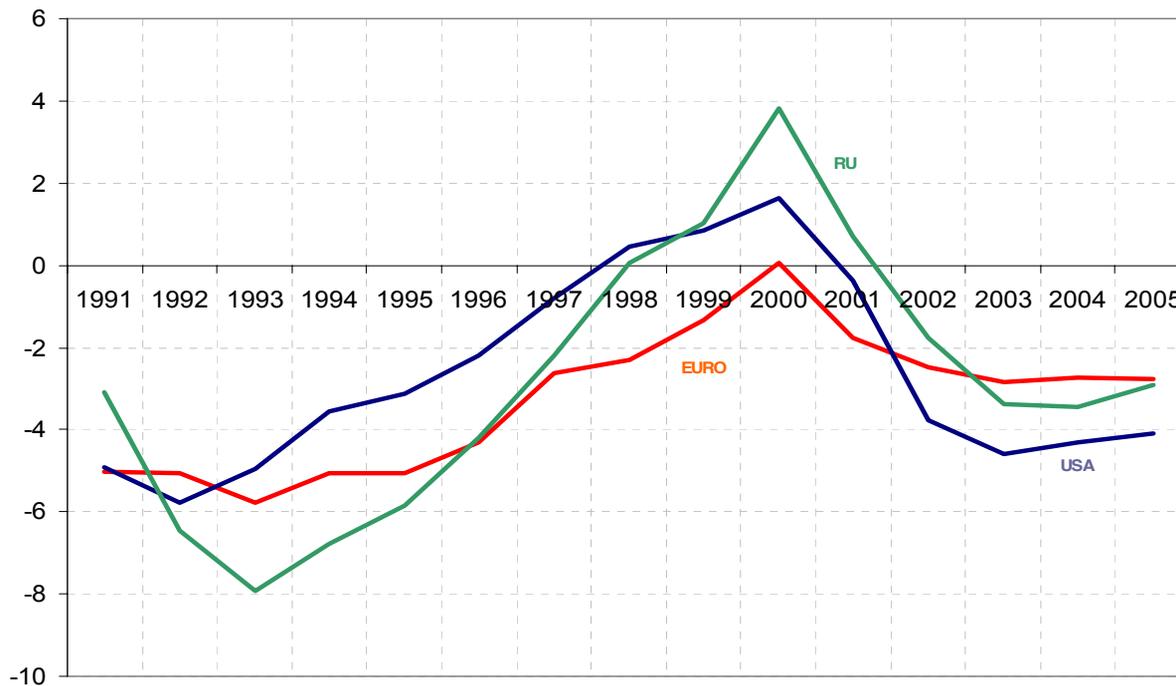
# V – Macroeconomic policies & industrial strategy

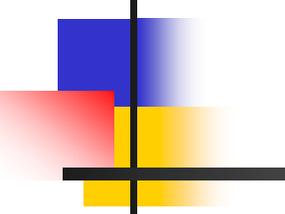
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- Reactivity of fiscal policy
- Structural reasons for the lack of reactivity
- Proposals of reform

# Reactivity of fiscal policy

<i>Cumulative impulse</i>	2002	2003	2004	2005	2006
<b>Zone Euro</b>	1.5	1.4	1.1	0.5	0.5
<b>RU</b>	2.9	4.5	4.6	4.2	4.1
<b>USA</b>	3.8	4.8	5.0	5.0	5.0
<b>Japon</b>	0.5	0.4	-1.0	-1.7	-1.3

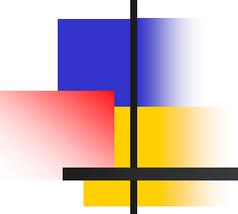




# The economic cost of the non-political Europe: The European economic government

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- The European contradiction lies in the following : no policy to sustain internal demand; so growth can only be export led; but appreciation of the euro. It is as if the EU did not draw the consequences of being a big country, and continues to behave as if it were a small economy, or a developing country. Why it is so ?
- A federal economic government
- The composition of the European economic government



# Structural reasons for the lack of reactivity

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- Limited national sovereignty

Lack of legitimacy for the European government, once discretionary action exceeding its mandate is required

## **The stability and growth pact**

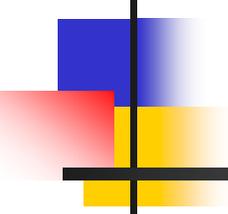
Exclude investment from deficit figures (golden rule)

## The ECB

Accountability : Political determination of the inflation objective and political determination of exchange rate policy

## **Competition doctrine**

Political guidelines for competition doctrine, in order to allow the conduct of industrial policies.



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## **A new Community ?**

Towards an European Community for Environment, Energy and Research. Trying to combine the energy problem with the increasing « demand » for environment.