

Press release

NEW CER REPORT

The future of Europe's economy: Disaster or deliverance?

Paul De Grauwe, George Magnus, Thomas Mayer & Holger Schmieding

Edited by Simon Tilford and Philip Whyte

Europe's economy is finally showing tentative signs of stabilising. But does this mark the start of a robust recovery, or is it, in the language of the markets, a 'dead cat bounce'? The Centre for European Reform asked four leading European economists to predict how things would look in 2020. Their answers differ sharply. The future of the European project will to a large extent depend on which of the four authors is most right.

If the eurozone as a whole, and its debtor states in particular, suffer prolonged stagnation and funding crises, popular faith in European integration could be hit hard. Aside from casting doubt over the future of the euro, the damage to the EU's single market, perhaps Europe's biggest economic asset, and to relations between member-states would be considerable.

Conversely, if the eurozone stages a sustained economic recovery, and the currency union's debtor countries are able to honour their debt burdens while engineering a bounce-back in living standards, the outlook for the euro (and the EU more generally) will be much brighter.

Holger Schmieding is optimistic. He believes that by 2020 the eurozone countries that are today in difficulties will be reaping the rewards of structural reforms and that the eurozone will be stable. Indeed, it will be best of all worlds – a currency union without moral hazard.

For **George Magnus**, the outlook is less bright. Rapid population ageing, weak productivity and a divided eurozone have conspired to produce the most significant threats to Europe's economy and the legitimacy of its political institutions since the 1930s.

Paul De Grauwe also fears for the future. If the eurozone is to flourish, its creditor countries must share the burden of reducing the currency union's imbalances. They need to do more to stimulate their economies and accept debt relief for the hard-hit economies.

Thomas Mayer suspects that fiscal discipline in the eurozone will crumble and that the ECB will be forced to monetise debt, leading to higher inflation in northern Europe. The result will be a stand-off and the launch of a German-led parallel currency to compete with the euro.

Notes for editors:

1. For media enquiries, please contact Simon Tilford on either +44 20 7233 1199, or at simon@cer.org.uk.
2. This report is available from the CER website (www.cer.org.uk)
3. This report is being launched on the September 18th 2013, 12.30-14.00 at the London School of Economics, The Hong Kong Theatre, LSE Clement House, 99 Aldwych, London WC2B 4J 9 (spaces are still available).