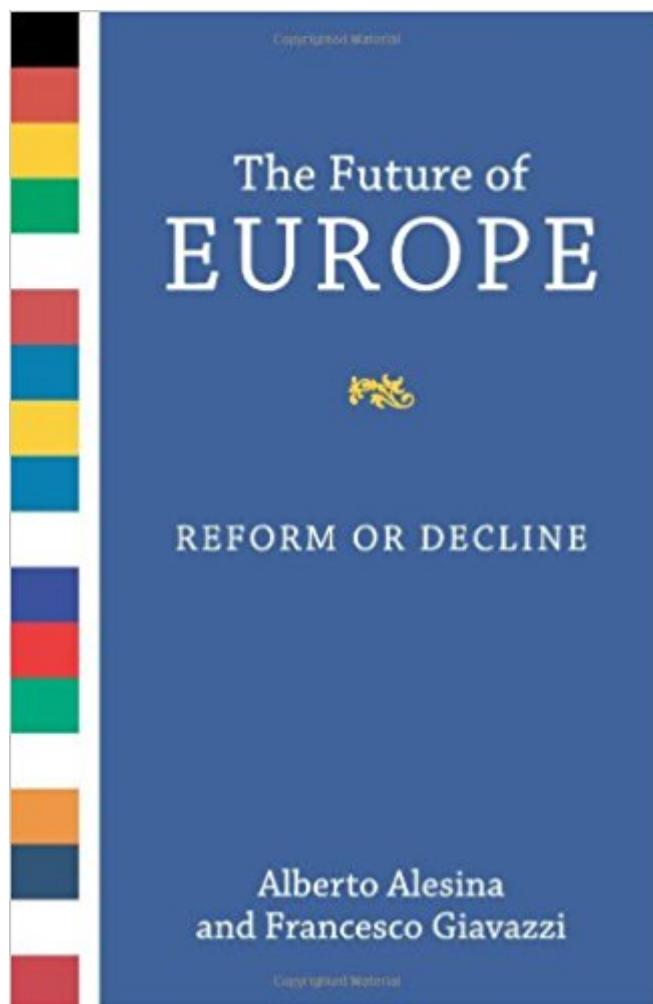


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The Future Of Europe: Reform Or Decline (MIT Press)



Synopsis

Unless Europe takes action soon, its further economic and political decline is almost inevitable, economists Alberto Alesina and Francesco Giavazzi write in this provocative book. Without comprehensive reform, continental Western Europe's overprotected, overregulated economies will continue to slow -- and its political influence will become negligible. This doesn't mean that Italy, Germany, France, and other now-prosperous countries will become poor; their standard of living will remain comfortable. But they will become largely irrelevant on the world scene. In *The Future of Europe*, Alesina and Giavazzi (themselves Europeans) outline the steps that Europe must take to prevent its economic and political eclipse. Europe, the authors say, has much to learn from the market liberalism of America. Europeans work less and vacation more than Americans; they value job stability and security above all. Americans, Alesina and Giavazzi argue, work harder and longer and are more willing to endure the ups and downs of a market economy. Europeans prize their welfare states; Americans abhor government spending. America is a melting pot; European countries -- witness the November 2005 unrest in France -- have trouble absorbing their immigrant populations. If Europe is to arrest its decline, Alesina and Giavazzi warn, it needs to adopt something closer to the American free-market model for dealing with these issues. Alesina and Giavazzi's prescriptions for how Europe should handle worker productivity, labor market regulation, globalization, support for higher education and technology research, fiscal policy, and its multiethnic societies are sure to stir controversy, as will their eye-opening view of the European Union and the euro. But their wake-up call will ring loud and clear for anyone concerned about the future of Europe and the global economy.

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Customer Reviews

As the new Congress begins work, it should peruse a recently published book, *The Future of Europe: Reform or Decline*, by two Italian economists, Harvard's Alberto Alesina and Bocconi University's Francesco Giavazzi. They explain what went wrong in Europe in particular in France, Germany, Italy, and Spain and how Europe can continue as a major economic power. (Diana Furchtgott-Roth *New York Sun*) There is no shortage of scathing descriptions of what's going wrong in Europe, especially in its three largest countries (France, Germany and Italy). But this book is different. Based on serious research undertaken by the authors over many years, its assessment is sure-footed, often unconventional, and always refreshing. It not only explains what's wrong but also offer practical solutions that leave no stone unturned. Very accessibly written, this provocative book deserved to be widely read, especially for the well-informed debated it will trigger. (Charles Wyplosz, Professor of Economics, Graduate Institute of International Studies, Geneva) Few scholars are better qualified to analyze the economic condition of Europe than Alesina and Giavazzi. With admirable clarity, supporting each step of their argument with some striking empirical findings, they reveal the seriousness of the plight of the major continental European economies-- and the urgency of the need for liberalizing reforms. (Niall Ferguson, Harvard University, author of *Empire* and *The Cash Nexus*) The authors have written an acceptable plea for Europeans to reform their economies along American lines. They have converted a great deal of technical thinking and evidence into a lively book that non-economists can easily digest. (Charles Tilly, Joseph L. Buttenwieser Professor of Social Science, Columbia University) This unique treatment of important political and economic issues offers interesting data that contrasts trends on two continents. The book's succinct clarity and hard-hitting style suggests that it will be a significant, controversial, and widely cited work. (James N. Rosenau, University Professor of International Affairs, The George Washington University) This book could have been a diatribe, but is saved from that by the intelligence of the authors' arguments and policy recommendations. A must read for those interested in the European economy. (Choice) Like all market-based economies, the transition countries are now subject to financial instability. This timely and important book uncovers the distinctive features of transition that give rise to financial crises in emerging market countries. (Charles Wyplosz, Professor of Economics, Graduate Institute of International Studies, Geneva)

Alberto Alesina is Nathaniel Ropes Professor of Political Economics at Harvard University. He is the coauthor (with Enrico Spolaore) of *The Size of Nations* (MIT Press, 2003). Francesco Giavazzi is Professor of Economics at Bocconi University and Visiting Professor at MIT. He is the coauthor (with Alberto Giovannini) of *Limiting Exchange Rate Flexibility: The European Monetary System* (MIT Press, 1989).

Before reading this book I had ambivalent expectations. On the one hand, I had read Alesina's "Fighting Poverty in the US and Europe" and found it pretty reasonably argued. On the other hand, the words on the back cover sounded like banal conventional wisdom; the favorable review by Niall Ferguson, whose economic reasoning with regard to many issues such as imperialism and fiscal policy has been rightly ridiculed by Krugman and others, did not promise much either. Luckily, this book turned out to be decent. It presents mostly standard neoclassical arguments about the problems of Europe. The arguments about inefficient universities, overregulated product markets and so on are pretty persuasively developed. Moreover, the authors make valuable qualifications - they do not suggest Europe should get rid of its generous social safety net; instead they say it could be delivered much more efficiently. Nordic countries, routinely disparaged by neoclassical economists as a nightmare, get credit for efficient judicial systems and labor market flexibility. Furthermore, postwar European industrial policy gets credit for high postwar growth (something many neoclassical economists try to deny), although the authors believe that its continuation is one of the reasons why European economies are sluggish. Basically, the strength of this book is a pretty nuanced exposition of traditional arguments about Europe's economic problems. However, there are some parts that are not so persuasive or well argued. The authors' general admiration of the American financial system is laughable in the light of the current crisis. Their suggestion that European countries should have bigger military budgets since many technological innovations in the US come through military projects sounds like a joke. Although it is true that many technologies came about this way, doing it through the military involves immense waste and handouts to private industry (Chalmers Johnson has recently provided some scathing coverage of the issue). As Alesina and Giavazzi seem to be concerned about crowding out in general, it is strange that this concern is forgotten when it comes to military spending. Finally, their assertion that Americans work more and make more is problematic, too, as is their meritocratic picture of compensation in the US. Up until recently about 40% of all profits in the US economy went to the financial sector (employing only about 10% of the population) which would imply it was the

most productive industry. However, now we know that bloated compensation in the US financial sector had little to do with productivity. Furthermore, most Americans work more than Europeans because for the past three decades real wages have stagnated for everybody but the really well off and in order to keep consuming more most people had to work more. This book is decent if one wants to read a coherent exposition of the neoclassical position. However, do not expect too much - there are quite a few silly arguments, too.

I read carefully Alesina's book. It is well written and it really gives Europe and Europeans something to think about. Basically, the authors defend that Europe should start doing things "The American Way", that is, work more, attract young researchers/scientists to universities and spend more in military programs. Several of these ideas are valid and I believe the authors are completely right in their insights, namely, the absolute need to attract young scientists and researchers to European universities. This being said, there are other issues, where it is unclear Europe could follow the approach the authors suggested: a) Banks - the authors defend European banking system should learn some lessons from the American Banks. The book was written in 2006, there is, before subprime crisis. To be honest, I don't think Europe should copy the US Banks model of management. And subprime crisis is right here to prove what I am saying; b) Military spending: this is the most controversial aspect of Alesina's book. Military spending is connected to one of the last barriers of sovereignty - military secrets, national defense system, industrial secrets. It is impossible to forget what could be the reaction inside Europe, if national governments started a big military program. Suppose, Germany would say: "we are going to start a gigantic military program". I don't think UK or France would be at ease. A possible solution: European programmes. But once again, this is easier to say than done. Europe is at peace only for 60 years. It is not exactly peaceful to agree on military spending/programmes. All in all, it is an interesting book. But some of the ideas, I am afraid can work really well in a Union such as the USA, but probably not in European Union.

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