

# THE EEAG REPORT ON THE EUROPEAN ECONOMY

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## What now, with whom, where to – the future of the UE

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The global economy has moved from recovery mode to a pronounced upturn. Output gaps in the euro area and the United States are expected to close soon, if they have not done so already. East and Southeast Asia are also making strong contributions. The Chinese and the Japanese economies expanded strongly in 2017, both fuelled by economic stimuli. In Latin America, the recovery was dampened by slow economic development in Brazil and the aftermath of the devastating earthquakes in Mexico. India's economy is regaining its footing. The global upturn is likely to continue for a while, before gradually slowing down as factors of production become increasingly over-utilised, particularly in North America and in Europe.

**CHAPTER 2 BUILDING TRUST BETWEEN SUSPICIOUS MINDS** 35

Trust is crucial to hold societies together. As for nation-states, trust in the European Union can be strengthened by contractual security, as well as by repeated and continuing interactions between people. In the absence of sufficiently high levels of trust, pooling resources across national boundaries may be perceived as painful and can erode, rather than build up a common identity. This chapter discusses the importance and development of trust both between people and in national and European institutions.

**CHAPTER 3 ALL TOGETHER NOW: THE EUROPEAN UNION AND THE COUNTRY CLUBS** 47

A founding principle of the European Union is that all member states and citizens should participate equally in a single process of ever closer integration. The euro crisis, Brexit and global geo-political trends make it interesting to revisit the issue of whether more flexible structures might be more promising. By comparing supranational groupings to country clubs, this chapter examines the pros and cons of a potential reconfiguration of the euro area, the Schengen Agreement, and the European Union. This chapter argues that while a multi-speed and variable geometry approach would solve some problems, it would also raise new issues of transparency and accountability of decision-making, free-riding, and the heterogeneity of rights depending on residence.

**CHAPTER 4 IT'S OK TO BE DIFFERENT: POLICY COORDINATION AND ECONOMIC CONVERGENCE** 64

Convergence has long since been one of the key goals of the European Union. As this chapter shows, however, convergence has not yet been achieved in many areas, most evidently in the case of income and employment levels, as well as for policies and institutional quality, undermining trust in European institutions. At the same time, diversity is natural and valuable, and policies need to be targeted to country-specific circumstances. Policy coordination at the European level can pave the way for necessary reform by providing information and encouraging dialogue, but within the existing institutional setup, economic convergence mainly hinges on the policies adopted by the member states.