

***Book Review – Alberto Alessina and Francesco Giavazzi’s
The Future of Europe: Reform or Decline (2006)***

*By Andrew Magnus**

[Alberto Alessina and Francesco Giavazzi, *The Future of Europe: Reform or Decline* (2006), The MIT Press: Cambridge (2006) ISBN: 0-262-01232-4 186 pp., 24.95 USD]

A. Introduction

The average German worker works more than five weeks less a year than the average American worker while worker productivity has been stagnant since the early 1980s.¹ In Italy, it takes 118 more weeks to collect on a bounced cheque than in the United States.² In Portugal and Belgium the legal expenses for a mortgage can run up to 20% of the value of the mortgage.³ These are just a few of the examples provided by Alberto Alesina and Francesco Giavazzi in their book, “The Future of Europe: Reform or Decline”, to justify why Europe’s *dirigiste* economic model and the economic and political importance of most continental Western European countries is fading. In short, the authors unabashedly, and with few qualifications, proclaim that many of the severe economic predicaments facing these countries would be ameliorated if they embraced the pro-market policies, though not the values, of the United States.⁴

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¹ ALBERTO ALESINA AND FRANCESCO GIAVAZZI, *THE FUTURE OF EUROPE: REFORM OR DECLINE* (2006), 47.

² *Id.*, 102

³ *Id.*, 103.

⁴ *Id.*, 3.

Spread over 172 pages, the book is a collection of fourteen chapters, many of which are adaptations of academic and non-academic papers and articles written by the authors, jointly, independently and with other colleagues over the past few years. While this may strike readers as quite short given the radical conclusions reached in the book, the authors acknowledge that this book is not intended to be an academic work. Instead it is intended to be approachable, direct – indeed the preface hints that they would like to provoke “the reader to react and even get mad!,” which no doubt, they will have achieved.⁵

B. The authors

This kind of non-academic, provocative work is often written by academics with excellent educational pedigree, extensive track records in referenced journals and affiliations with research councils and/or high-level public service. These two others generously meet those requirements. Alberto Alesina is the Nathaniel Ropes Professor of Political Economy at the Economics Department of Harvard University, having done undergraduate work at the Università Bocconi (Milan), followed by an MA and PhD at Harvard. An accomplished academic, Alesina is co-editor and associate editor of many prestigious Journals on economics, and Director of the National Bureau of Economic Research [NBER], Program in Political Economics, a leading research organization in the United States, amongst various positions.⁶

Francesco Giavazzi, a professor of economics at Bocconi University (Milan), is also a visiting professor at MIT, and a research associate of the NBER, in addition to being a trustee of the Centre for Economic Policy Research. Amongst various professional activities, Giavazzi has extensive experience in the public sector as a member of the Council of Economic advisors for the D’Alema government, in addition to being a director general of the Italian Treasury.⁷

C. Reform or Decline?

The authors use the introduction to define terms and to divulge their pro-market perspective. In the first chapter, the authors discuss the different social models in

⁵ *Id.*, . ix.

⁶ ALBERTO ALESINA, CV. Available at: <http://www.economics.harvard.edu/faculty/alesina/aacv-0207.pdf>

⁷ FRANCESCO GIAVAZZI, Short Bio. Available at: http://www.igier.uni-bocconi.it/whos.php?vedi=1015&tbn=albero&id_doc=177

the United States and Europe, their views on the historical reasons for these differences, and then introduce the central problems inherent in the European world-view that will be discussed throughout the book. The second chapter focuses on differences in immigration policy in many European countries vis-à-vis the immigration policy in the United States and suggests several ideas for what should be done. In the third chapter, the authors explore the discrepancy and trade-offs inherent in Europeans working significantly fewer hours per year and its consequences in relative prosperity. In the fourth chapter, job security and labor regulations are discussed as a primary reason for high unemployment in much of Western Europe. The fifth chapter looks at innovation in Europe from the perspective of both the firm's ability to adopt radical change, as well as a criticism of the lack of research productivity in non merit-based University systems. Chapter six presents a critique of subsidies, "national champions" and the downsides of favoring incumbent firms over the creative destruction of more liberalized markets. In chapter seven, the authors focus on interest groups and the misguided difficulties experienced by many European countries in trying to deregulate their economies. Chapter eight argues for more efficient judiciary on contract enforcement in addition to shortening the time necessary to start a new business. The ninth chapter points out the conflicts of interest in the financial markets of many European countries, and the inefficiencies in the regulation of the sector by national central banks. Chapters ten and eleven delves into the prospects for a united Europe and a strong criticism of "dirigisme" in the European Union. On a related note, the Euro is discussed favorably in Chapter twelve, while the status of changes required to adapt to the Euro in many European countries are criticized. In Chapter thirteen the authors discuss budgets and the favorability of cutting spending public especially in government employment paired with reduced taxes. The book concludes with a proposal of six big picture solutions encompassing many of the prescriptions throughout the book.

The premise of the book is that many Western European countries face the risk of economic decline relative the rest of the world, and the United States especially, if they continue along the path of significant regulation in line with the "European" social economic model.⁸ Fewer hours worked⁹, higher taxes¹⁰, inefficient and over-regulation at national and supra-national levels¹¹ has lead to higher unemployment, and stagnant productivity and innovation which will ultimately lead to a relative

⁸ ALESINA/GIAVAZZI, note 1, at 3.

⁹ ALESINA/GIAVAZZI, note 1, at 45.

¹⁰ ALESINA/GIAVAZZI, note 1, 49.

¹¹ ALESINA/GIAVAZZI, note 1, 121.

decline in GDP and ultimately living standards. In short, the authors contend that the most important lesson that the United States can give to Europe is a belief that people respond to incentives and most of the time market work, or at least they work better than any other mechanism."¹²

D. The "Insiders"

The authors focus on several antagonists, generally described as "insiders", including senior unionized workers¹³, incumbent business owners,¹⁴ university professors,¹⁵ public servants,¹⁶ incumbent banks¹⁷, and even French trades-people who benefit from rents in the European status quo at the expense of higher GDP which would benefit all citizens.¹⁸ Indeed, the authors cite how many of the purported goals of the European social model, such as redistributive social programs and equality of opportunity are being undercut by the policies generally thought to achieve them. One example the authors cite is the massive public support of post-secondary education in many European countries, while students themselves make little financial contribution. While public funding may appear more egalitarian than student supported education, ultimately, the policy benefits the well-off more than the poor since university is primarily attended by children of higher-income families.¹⁹ Compounding the problem at Universities is the tendency to equalized and seniority based faculty pay. The authors contend that the lack of a truly competitive market for professors has lead to both a brain drain of the best and brightest to American universities and less productive university research output, which has ultimately resulted in a lack of innovation throughout the economy.²⁰

¹² ALESINA/GIAVAZZI, note 1, 3.

¹³ ALESINA/GIAVAZZI, note 1, 69.

¹⁴ ALESINA/GIAVAZZI, note 1, 80.

¹⁵ ALESINA/GIAVAZZI, note 1, 70.

¹⁶ ALESINA/GIAVAZZI, note 1, 91.

¹⁷ ALESINA/GIAVAZZI, note 1, 116.

¹⁸ ALESINA/GIAVAZZI, note 1, 38.

¹⁹ ALESINA/GIAVAZZI, note 1, 73.

²⁰ ALESINA/GIAVAZZI, note 1, 70.

While some of the policy recommendations are quite provocative, others would seem uncontroversial and practical. For example, the discussion in chapter eight of the costs of doing business, the authors look at the efficiency and timeliness of the judicial system for accomplishing two common tasks: evicting a defaulted tenant and collecting funds on a bounced cheque.²¹ As described above, it takes a couple of years longer to accomplish these tasks in Italy than in the United States, and the authors point to this discrepancy as evidence of hindrances to commerce and exchange due to lack of trust and faith in the public system to enforce its laws.²² In the same chapter, comparisons of the complexity and cost involved in setting up a new business also favor the United States, Great Britain and Canada, where it can take from 2 to 4 days and \$166 to \$396, while in many European countries it often take months, and many thousands of dollars.²³

Instead of preparing citizens for the challenges of competition, leaders instead focus on different forms of protection through regulation, “protection of insiders, of those who are connected, at the expense of those who would benefit from more competition”²⁴, in addition to a dependence on high taxation and government spending. Instead, the authors argue, the solution to Europe’s problems is a movement toward free markets since “people respond to incentives and most of the time, markets work better than other mechanism.” Therefore, they say, European governments should facilitate markets by curbing regulation and generally interference with the market mechanism to allow for creative destruction that weeds out inefficiency and rewards innovation.²⁵

E. Conclusion

Though there are significant economic and social challenges facing many continental Western European countries, the authors believe that there is an opportunity to preserve the desirable “European values” while moving toward the market based solutions often found in the United States.²⁶ In “The Future of Europe” Alesina and Giavazzi discuss these inter-related problems and their

²¹ ALESINA/GIAVAZZI, note 1, 102.

²² ALESINA/GIAVAZZI, note 1, 102.

²³ ALESINA/GIAVAZZI, note 1, 107.

²⁴ ALESINA/GIAVAZZI, note 1, 165.

²⁵ ALESINA/GIAVAZZI, note 1, 84.

²⁶ ALESINA/GIAVAZZI, note 1, 3.

historical origins, in addition to suggesting specific solutions and coordinated plan for tackling them.

So, can Europe reform or will it decline? Though the authors point to a nascent awareness of the serious problems facing Europe, it is difficult to imagine Europeans choosing to embark on path of extremely difficult reforms of such scale, seemingly contrary to many of its cherished values and especially when the purported model for reform appears to be on the brink of a recession partly triggered by lax regulation of the sub-prime mortgage industry. While it appears the American model would have many benefits for Europe, the authors spend little time dismissing the middle ground position presented by the Scandinavian countries which, for the time being, appear able to have struck a balance that West European countries would find more palatable.

While recent election results in France may be an early indication that some Europeans accept the urgency of the issues described by in this book, it remains to be seen whether they are willing to accept the remedies.