RECOMMENDATIONS FOR EUROPE

- A country's performance depends on circumstances beyond its control, as well as on government policies and national institutions. A crisis may trigger reforms, but it is essential to adopt policies that are appropriate in each country's specific circumstances. Such policies are not necessarily identical to those of other more successful countries, or those in force when the country was enjoying better times.

- Institutions play a crucial role in easing adjustment to new developments. If, at the country level, it is possible to even out and share gains and losses, this helps to avoid politico-economic stalemates and react constructively to structural change. Otherwise, as illustrated by Italy's experience, a country can find itself unable to pull itself out of prolonged stagnation.

- For institutional and political reasons, the sharing of gains and losses cannot take place through taxes and transfers across the borders of EU countries. This makes it all the more important to achieve it through private-sector instruments in common banking and financial markets that function effectively. Progress on this front tends to be slow for institutional and political reasons when, as in the case of public debt as a banking sector safe asset, it entails some fiscal elements.

- Countries may find themselves constrained by common yet incomplete monetary and financial markets, and try to relax those constraints via sophisticated financing schemes or the introduction of parallel currencies. If such attempts have fiscal implications, they run into the same issues as an overt violation of fiscal constraints.

- If they do not, as in the case of peer-to-peer currencies and lending, they may help economic activity, but have limited potential to improve the public sector's financial conditions. It is not obvious that public policy has a role to play in their development or regulation.

- Constraints should be faced, not circumvented, and trade-offs are inevitable. Countries that feel constrained by the eurozone's incomplete integration should not forget that having their own currencies did not always improve their circumstances in the past, and would not be a panacea in the future.

- The inward reorientation of US international policy implies that Europe needs to exploit synergies, such as those offered by both common trade and defence policy. The rise of China and the growth of trade and capital flows offers enormous potential for economic gains from both sides, it also requires Europe to react and develop a better adjustment capacity.

- The European Union should remain open to foreign investment, because economic linkages improve trust and reduce the likelihood of conflict, but it should also demand the reciprocal treatment of European investors in foreign countries, which is easier to obtain if Europe presents a united front and brings the large internal market to bear in negotiations. The new European framework for screening foreign direct investments in Europe is helpful in this respect, but clearer criteria are needed to prevent lobby influence, protectionism, and excessively bureaucratic and slow procedures.

- The rise of China as a leading power in science and technology may undermine European technological leadership in some sectors, but the European Union should not engage in races for dominance in particular technologies. Instead, it should advocate multilateral processes for setting standards, exert influence in that framework, and foster technological innovation by deepening internal capital markets and improving border crossing networks for data, communication, energy, and transport.