Foreword

The euro crisis has calmed down somewhat, but the real problem, the southern euro area countries' lack of competitiveness, has not been resolved. Some euro countries simply became too expensive in the years before the crisis, as a result of the availability of cheap credit from abroad. They now need to depreciate in real terms by cutting their wages and prices relative to their euro area competitors. Whether and to what extent this process is underway is one of the topics discussed in this year's report, the twelfth in the series. The report also provides a more general assessment of the crisis, expanding on topics that were discussed in previous issues. It places a particular focus on the quickly deteriorating labour market situation and it tries to draw lessons for the European unification process from the United States, and particularly from its problematic early years, during which most of its states went bankrupt.

As always, the report starts with an assessment of the current economic situation, providing a set of forecasts prepared by the Ifo Institute and complemented by the report's authors, the European Economic Advisory Group at CESifo (EEAG). Chapter 2 focuses on the intra-euro area imbalances, emphasising the need for fiscal consolidation and a realignment of prices. It suggests cutting expenditures rather than raising taxes, and it advocates a fiscal devaluation by shifting the tax burden towards indirect taxes. Chapter 3 looks at long-term unemployment and the development of dual labour markets in some southern countries. At the heart of the analysis is the question of the optimal degree of labour market flexibility, in terms of trading off efficiency and social justice. The chapter opposes automatic, legally binding sector-level bargaining, and emphasises the need for improved vocational education, training and apprenticeships, as well as active labour market policies and employment protection legislation. Chapter 4 compares the European unification process with the history of the United States. It argues that the establishment of a common state is a necessary prerequisite for fiscal transfer schemes and warns against government debt mutualisation schemes. Furthermore, it calls for a US-like settlement mechanism for the Target balances that the EEAG analysed in its 2012 report.

The EEAG, which is collectively responsible for each chapter in its yearly report, consists of a team of six economists from five countries. This year, the Group is chaired by Jan-Egbert Sturm (KOF Swiss Economic Institute, ETH Zurich) and includes Giuseppe Bertola (EDHEC Business School), John Driffill (Birkbeck College), Harold James (Princeton University), Ákos Valentinyi (Cardiff Business School) and myself (Ifo Institute and University of Munich). The members participate on a personal basis and do not represent the views of the organisations they are affiliated with.

I would like to express my gratitude for the valuable assistance provided by the scholars and staff at CES and Ifo who helped to prepare the report. This year's participants were Darko Jus and Nadjeschda Arnold (research assistants), Tim Oliver Berg, Nikolay Hristov and Johanna Plenk (economic forecast), Lisa Giani Contini and Julio Saavedra (editing), Christoph Zeiner (graphics), Elisabeth Will (typesetting) and Ines Gross (cover). I also wish to thank Swiss Re for hosting our autumn meeting.

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