Why Europe Is Not Becoming the World's Most Dynamic Economy

The Lisbon Strategy, Macroeconomic Stability and the Dilemma of Governance With Governments

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Abstract. *This paper argues that the economic reforms of Europe's Lisbon strategy is failing. As one can learn from the American example, lifting economic growth requires more than supply side reforms. The coherent mix of macroeconomic policy makes a difference. The reformed Stability and Growth Pact is not capable of providing this. The reasons for this failure are collective action problems. The problem is the European "governance with many governments."What is needed is a proper government for the European Union, or at least Euroland. However, more delegation to the European level is only legitimate if European citizens can exert their democratic rights.*

At the Lisbon European Council in March 2000, the heads of State and government promised to make the EU "the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment" by 2010. If this statement was meant to inspire enthusiasm and to challenge the United States, it has failed. By over-committing and promising unachievable goals it has ridiculed European policy makers. Despite desirable objectives, compliance with the strategy agreed in Lisbon has been insufficient to produce the desired results. According to the European Commission (2005:4) this is due to "a policy agenda, which has become overloaded, failing coordination and sometimes conflicting priorities." The reasons for this coordination failure are not well understood. Governments are exhorted "to do more reforms", but few seem capable to implement them and when they do so, the results are not as expected. In spring 2005, five years after Lisbon and midway to the goal, the European Commission has called for a "new departure" by focusing on a limited number of "key actions that promise the highest and most immediate dividends" (Barroso, 2005), namely investment, innovation and jobs.

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This new focus is primarily interpreted as a supply-side agenda. Economic reforms are intended to improve research and development, labour market flexibility and capital market integration. No doubt this would improve Europe's productive capacities. However, there are two noticeable holes in this "new" strategy: macroeconomic policy and the issue of governance. The new Lisbon strategy is "less, of the same." It is less, because macroeconomic management and social cohesion have been dropped from the agenda and unless demand absorbs supply, who would invest more? It is the same, because it does not address Europe's institutional imbalances. Especially after the failed ratification of the Constitutional Treaty in France and the Netherlands, institutional reform has become a taboo. I will show that the EU's disappointing performance is due to a collective action problem, which applies to both, supply side reforms and macroeconomic management. Ultimately it cannot be separated from constitutional questions. The problem is "governing without government" (Rosenau, 1992; Rhodes, 1996), or more precisely "governance with many governments." I will first examine where the Lisbon strategy is failing in its present arrangement, and then focus on the flawed macroeconomic framework, which requires constitutional reforms.

Where the Lisbon Strategy is failing

The Lisbon Strategy must be seen in its political context, which has dramatically changed since its inception and has shifted the emphasis on economic supply-side reforms. But even these reforms are not forthcoming because of collective action problems. The result is a disappointing performance.

The political context

The Lisbon strategy was inspired by the strong economic growth in the United States and the perceived incapacity of Europe to do the same. The US economy had reached the longest lasting upswing in its history in the late 1990s, as the Clinton government had consolidated public finances and cooperated closely with the central bank to bring interest rates down. As a result, the investment share in GDP rose in the USA from 16

percent in 1992 to 21 percent in 2000 and unemployment fell to 4 percent, the lowest level since the 1960s. New investment incorporated technological innovation in ITC industries and raised productivity after a long period of stagnation. This was the envied model of America's "new economy." By contrast over the same period, unemployment was high in Europe, investment and growth low and the sense of stagnation all-pervasive. The investment share, which stood at 27 percent in the 1960s and early 1970s, fell from 22 percent in 1991 to 20 percent in 1996, but investment did not incorporate technological progress to the same degree as in the USA. Human capital also seemed to be deficient.

Real investment grew significantly more rapidly in the USA than in Europe during the Clinton years, but had been negative in the previous period from 1985 to 1992. At the same time US real long term interest rates were one percentage point higher than the synthetic interest rate for Euroland during the 1985-91 period, but they were 19 base points lower in 1992-2004. The contrasting economic performance is usually explained by structural factors, particularly in the labor market. However, the rapid reversal of fortunes indicates that the differences between Europe and the U.S. may depend more on policies than on institutions and structures. For example, in the 1980s Japan and Germany were considered to be the superior model, given that these countries seemed to favour long term relations; America seemed on its way out because it was seen as too short-term oriented. In the 1990s this view was inverted; now flexibility was thought to be the trump card.

While the US economy was deregulated in the 1980's, *eurosclerosis* resulting from protective national regulation and the insufficient integration of markets appeared to impede economic growth in the EU. Active supply side policies were sought to close the transatlantic gap. The Single European Act, signed in 1986, creating the single market by 1992 has remained the most ambitious project to date. It succeeded by reforming the operating procedures of European institutions, most specifically by extending the scope of qualified majority voting for single market related legislation. It soon became apparent that the logic of a fully integrated single market required a single currency; hence Maastricht added monetary policy to the integration agenda (Collignon and Schwarzer,

2002). But by the mid 1990 unemployment reached new record highs and economic growth remained dismal. As a consequence a number of "processes" were set up by different European Councils in order to remedy the situation and fill some gaps in the policy setup. The *Luxembourg process* for labour market reforms was agreed in 1997. Procedures for the complete unification of the goods and capital market were put into place in *Cardiff* in 1998. Finally at the 1999 *Cologne* Council meeting, a macroeconomic dialogue between wage bargainers, finance ministers and the European Central Bank (ECB) was set up to support a better policy mix. These "processes" did not produce the expected results. In fact, the reason for calling them a *process* was that the European heads of State and government could not agree on the substance of policies. They were constrained by national debates and the partial interests articulated within their home constituencies. Policy debates rarely focused on what was the best common interest of all Europeans. Behind the idea of "policy processes" was the hope that by going through a process of common deliberation, governments would ultimately find solutions acceptable to all. However, this underestimated the importance of vested interests articulated in national politics. Changing policy preferences through bureaucratic deliberation only worked for technocratic issues, such as setting technical regulations for the single market. In areas of high politics, it sometimes took a very long time to converge to consensus (for monetary policy it took three decades). In the short run, policies were shaped by negotiations in a "two-level-game" (Putnam, 1988), where governments take preferences are given by their constituency and negotiate compromises at the lowest common denominator in the European Council. The resulting Nash-equilibrium did not optimize welfare. Instead, Europe's economic governance had become a mix of cheap talk on reforms and gridlock in decision-making.

The Lisbon strategy in 2000 was an attempt to overcome these difficulties. No longer a "process", it was meant to load substance into the empty lorries of Cardiff, Luxembourg and Cologne. In the version finally agreed, the strategy addressed four policy *areas*: (1) Reforms to create a knowledge society, intended to help Europe catching up with the "new economy" and improve productivity. (2) Optimal macroeconomic policies to ensure that interior rates came down and the higher potential output would effectively be

absorbed by demand in product markets without creating inflationary tensions. (3) Completing the integration of Europe's capital market to increase investment, especially by raising venture capital for innovation in small and medium-sized companies. (4) Reformulating the European social model, not by dismantling the welfare state, but by putting social inclusion first and empowering governments to deal with the challenges of globalisation and an aging society.

The Lisbon agenda reflected the dominance of centre-left governments in Europe at the time and their commitment to macroeconomic policy. Portugal's Prime Minister Antonio Guterres had first designed the basic objectives of what later became the Lisbon strategy in a working group of the European Socialist Party (ESP) in 1999 aimed at reducing unemployment (Kulahci, 2002). The Lisbon strategy was conceived as a two-pronged approach of supply-side reforms matched by responsible demand management in order to increase growth. Higher welfare necessitated higher productivity and therefore innovation and knowledge to improve potential output. But given that new jobs are only created when actual GDP grows faster than productivity, macroeconomic policy was considered indispensable for creating jobs, and also for consolidating public finances and releasing resources for Europe's social model. Previously, the European Commission had calculated that with 3 percent growth the EU would reach full employment within a decade. Thus, it seemed reasonable to focus on this objective.

But how could it be achieved? Low interest rates were the key. In 1999, the German presidency under the new Schröder government set up the Cologne process, aimed at creating a cooperative growth supportive environment with low interest rates by encouraging a dialogue between wage bargainers, finance ministers and the ECB.[2] One year later, the Portuguese EU-presidency sought to strengthen this growth strategy. When preparing the Lisbon Council, member state governments discussed the option of setting a 3 percent growth rate as a numerical policy target for Euroland. Given that the European Central Bank (ECB) had defined price stability as a rate of inflation "below,

[2] At the time, the author was an active participant in the Guterres ESP-group and in charge of the Lisbon inter-ministerial policy coordination in the German government. For the theoretical foundation of the macroeconomic strategy behind the Cologne process and Lisbon strategy, see Collignon 1999.

but close to 2," it seems reasonable that the European Council could also set its growth target numerically. This approach seemed justified by the Treaty on European Union. While the ECB certainly had price stability as its "primary objective" (art. 105.2), it was also obliged, according to art. 2 of the Treaty on European Union, "to promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance,(…)", provided price stability was assured. Specifying the numerical content of the Treaty article 2, would have defined clearly what kind of growth rate the ECB ought to support after achieving price stability. For example, when setting the reference values for monetary aggregates under Pillar I, the ECB should have taken a growth objective of 3 percent, rather than 2.5 percent, which it effectively considers the achievable growth rate for potential output. The numerical target for economic growth would have strengthened the voice of finance ministers in the informal meetings of the Euro-group when the central bank had taken a hard line on "independence", bordering on uncooperativeness. Thus, setting a target for art. 2 would have been a step toward rebalancing the policy mix. Furthermore with growth at 3 and inflation at 2 percent, and with budget deficits capped at 3 percent, the debt/GDP ratio would have stabilized below 60 percent, ensuring the long run sustainability of public finance. A growth target of 3 percent would therefore also have contributed to fiscal consolidation.

In the end the option of fixing a numerical growth target was not adopted at Lisbon, because a member from an opt-out country insisted that more ambitious objectives would unleash entrepreneurial creativity. The 3 percent target was replaced by the goal of becoming "the world's most competitive economy." This formulation effectively prevented the institutional anchoring of macroeconomic policy into the Lisbon strategy. As right wing governments subsequently swept into power, the emphasis on macroeconomic policy and social inclusion was lost and a more narrow supply-side approach became dominant. After that, the Lisbon strategy never really took off. In

Europe's fragile governance, it does not always take a veto player to make policies sub-optimal.

The "open method of coordination" and the collective action problem

In essence, the failure of the Lisbon Strategy is due to a collective action problem, whereby countries find it in their national interest not to pursue policies that would support the overall collective European good as long as everyone else played by the rules. But because the incentives are the same for all, none will make the efforts necessary for achieving the common interest.[3] When preparing the Lisbon summit, the Portuguese presidency of the European Union faced the same dilemma as previous initiatives: why would national governments agree to European policies that might constrain their actions at home? The optimistic and somewhat naïve answer by many Euro-phile policy makers is that the existence of positive policy externalities created incentives to cooperate. The Kok-report (2004) formulated it neatly: "Actions by any one Member State (…) would be all the more effective if all other Member States acted in concert; a jointly created economic tide would be even more powerful in its capacity to lift every European boat. The more the EU could develop its knowledge and market opening initiatives in tandem, the stronger and more competitive each Member State's economy would be." Along these lines, the European Commission has also been propagating for years that "massive potential gains" were to be reaped from wider and deeper integration, while "non-Europe" was a costly waste of resources. But the question remains, why these gains are not realised despite such obvious advantages for all. The answer is not simply lack of focus or insufficient support, as the Commission (2005:5) claims. It is rooted in the structure of political incentives. Political economists know from the theory of collective action that the existence of potential positive spillover effects is not enough to ensure cooperative behaviour (Olson, 1971). If the costs and benefits of actions are not properly matched for individual actors, cooperation failure is the result.

[3] For a more extensive discussion see Collignon, 2003a.

Collective action problems are caused by externalities that provide incentives for non-cooperative behavior. These externalities can be linked to different types of public goods. *Inclusive public goods*, sometimes called club goods, are characterised by positive externalities as more members participate in a group. Because one can impose restrictions on access to the club, every individual member can be obliged to make the necessary efforts for the realisation of the common benefits. Thus, inclusive goods provide incentives for successful voluntary cooperation between independent utility maximising actors. It is, however, possible that asymmetric information could lock partners into suboptimal equilibria (prisoner dilemma). Procedures for improving the information flow are then required, possibly in the form of an independent and impartial authority. The "regulatory mechanism" by which public goods are provided without formal and central authority is therefore dependent on the nature of externalities. A policy regime that allows the efficient provisions of inclusive public goods on the basis of voluntary cooperation has been called "governance without government" (Rosenau, 1992; Rhodes, 1996).

European integration provides a number of examples for such inclusive public goods. The existence of the European Commission should ensure that information asymmetries are overcome so that everyone knows what action is required. Successful political cooperation has taken place in creating the single market in order to engender economies of scale. Network projects like the Galileo satellite navigation system or the Airbus project, provide high benefits from cooperation and the possibility of reaping them is clearly allocated to each contributing participant.[4] Another typical club good phenomenon is participation in European monetary union (EMU), which induced the convergence of macroeconomic policies, clearly a public good. The Maastricht criteria helped create low inflation, because (nearly) everyone wanted to share in the benefits from monetary union and the possibility of being excluded made governments comply. Convergence policies were therefore "owned" by member states. The role of the Commission consisted in monitoring the process and overcoming information

[4] Nevertheless, the recent Airbus difficulties show that a club may still encounter difficulties in the provision of collective goods if its management is bad.

asymmetries to prevent blockages. Hence, the logic of inclusive public goods made successful voluntary cooperation among governments possible, while the commission provided formal procedures to facilitate the flow of information. With the successful convergence to the Maastricht criteria as a model, the designers of the Lisbon strategy thought that a list of structural indicators with clear goals and objectives for each member state would accelerate reforms, release synergies and ameliorate the EU's performance.

However, the logic of self-sustained policy convergence does not work for *exclusive public goods*, which are also called common resource goods. Here it is impossible to prevent access to the consumption of the collective goods for any member of the group and therefore it is hard, if not impossible, to make them pay for the cost of producing them.[5] Exclusive public goods therefore create incentives for free-riding. A single member could benefit by deviating from the strategy pursued by everyone else. As a consequence, nobody will wish to conform and it is unlikely that exclusive public goods are optimally provided by voluntary cooperation. The resulting collective action problem has been called "the tragedy of the commons" (Hardin, 1968). It can explain many aspects of the disappointing performance of the Lisbon process, because the intergovernmental governance with many national actors, has no mechanism for coordinating the cooperative behaviour needed to provide exclusive goods.

The early stages of European integration were dominated by inclusive public goods. Given the political will of European unification, policies focused on goods where positive externalities could be reaped. This may explain the above-quoted belief by many policy makers that good policies will be implemented because they are in the interest of all. But as integration has deepened, more and more exclusive public goods have become the object of European policy-making. This is true for many supply-side reforms, but even more so for macroeconomic policy. For example, member states are frequently criticized for not implementing EU legislation. The Commission (2005:8) writes: "In a number of Member States, key markets like telecoms, energy and transport are open only on paper –

[5] The common resource goods are called exclusive because the members of the club will want to keep new members out, as this would reduce their benefits.

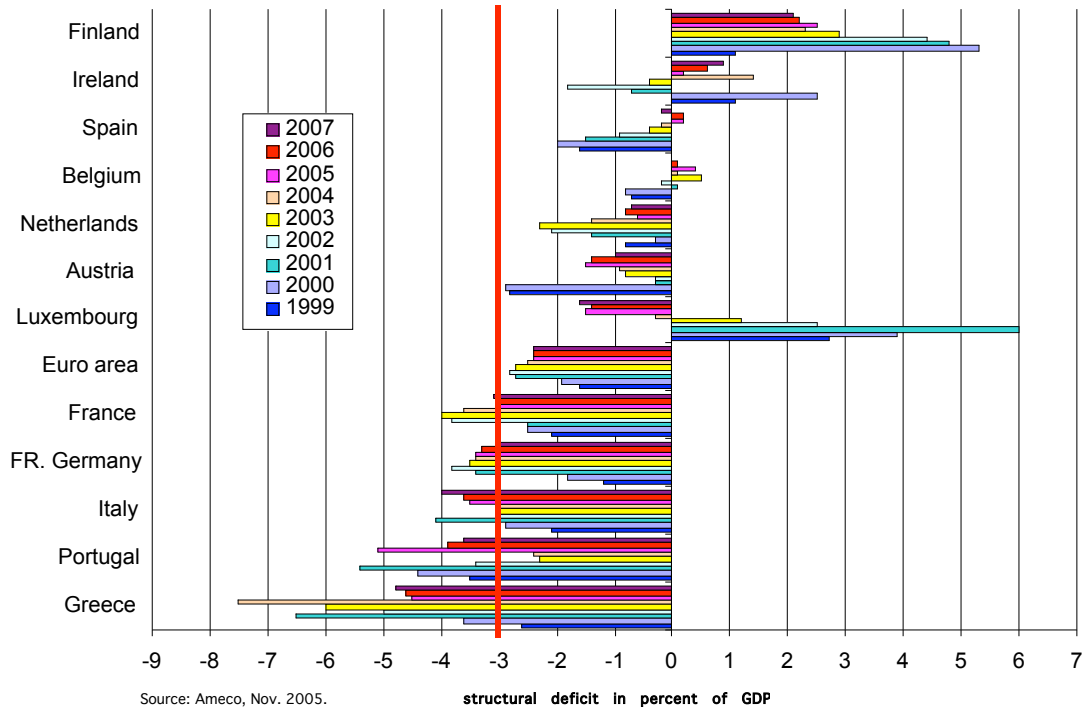
long after the expiry of the deadlines to which those Member States have signed up." The reason is a collective action problem. It is true, integrated production structures and supply chains imply that it is in the interest of each member state that all EU countries improve their competitiveness, and this may create a common EU interest in reform (Monti, 2005). But if everyone else is liberalizing markets, it may, under certain conditions, be advantageous for individual countries to keep restrictions in place for a little longer to gain uncontested market power in the larger single market.[6] Thus, each country has an incentive to wait with its own reforms, while pushing others to do them soon.

But the problem is even more severe for macroeconomic policy because of the seriously flawed institutional arrangements for fiscal policy. Fiscal policy shows signs of coordination failure, because capital funds in EMU are a common resource good and interest rates are their scarcity price. If monetary policy aims at maintaining price stability, the ECB will restrain the provision of liquidity, which is the "common resource" in the financial system. But access to liquidity in the capital market is free for all. Higher structural public deficits will therefore, *ceteris paribus,* increase equilibrium interest rates and appreciate exchanges. This will lower economic growth. The Stability and Growth Pact (SGP) therefore stipulated that cyclically adjusted budgets must be balanced, so that interest rates would be low. But at low rates, it is advantageous for each member state to borrow money rather than to raise taxes or cut expenditures. Hence, there exists an incentive for individual governments not to respect the Pact, while publicly insisting that everyone should. Not surprisingly, structural deficits are not "in balance" (they are above 2% of GDP for the whole of Euroland and even above 3% for France, Germany, Italy, Portugal and Greece (see Figure 1). After the aggressive consolidation before 1999, structural deficits have deteriorated until 2002, while long-term interest rates remained high - despite the negative growth shocks in 2001 and 2002. Thus, it is fiscal consolidation fatigue rather than excessive conservation of the European Central

[6] A sufficient condition for this logic to be valid is the existence of increasing returns to scale as emphasized by the New Trade Theory.

Bank that kept interest rates from falling more than they did. I will discuss this claim in depth in the second part of this paper.

Figure 1. Structural Deficit (based on potential GDP) in Euroland 1999-2007



In monetary union, most macroeconomic policy variables, such as inflation, nominal and real interest rates, exchange rates, economic growth and employment policies have become exclusive public goods. All members consume these goods collectively, but the costs in terms of policy misbehavior prevent their optimal supply. Policy incentives of Europe's governance with many governments are such, that individual member states will always be tempted to free-ride on others.

It can be shown that the incentive problems caused by the exclusive nature of public goods increase with the size of the EU. [7] The correct policy response would be either hard

[7] For a full elaboration of this argument and its underlying theory, see Collignon, 2003, Annex 2.

and constraining binding rules or policy delegation to a European institution in order to ensure a coherent and unified policy in the interest of the Union. Especially, when there is some need for discretionary policies, exclusive public goods require the governance of a government (Collignon 2003a). But this is what national governments keep resisting, partly because they want to keep control over their own agenda, partly because they find it difficult "to sell more Europe" to citizens, when Europe is already so weak: when national policy preferences are heterogeneous, centralization at the European level could undermine the EU's legitimacy even more (Alesina and Wacziarg, 1999). Thus, more delegation is not perceived as a political option.

Given these constraints, Lisbon invented the "open method of coordination" (OMC). In fact, the OMC was an accident; it came about because several governments, and in particular the German chancellor, resisted having "their hands tied", let alone delegating power to the Commission. Guterres therefore sought to enroll member states into an open intergovernmental process of policy coordination, where "open" meant "unconstrained". In essence, the OMC is equivalent to respecting member states' veto power. Nevertheless, governments were urged to commit to specific common policy objectives, while implementation was left to them. To safeguard against uncooperative behaviour, multilateral surveillance by the Commission and peer pressure through "naming and shaming" of non-performers was considered sufficient. The OMC is therefore a stronger form of policy coordination than simple voluntary action, but it suffers from the same dilemma as previous coordination attempts: incentives for free-riding hamper unified action necessary for the provision of exclusive European collective goods.

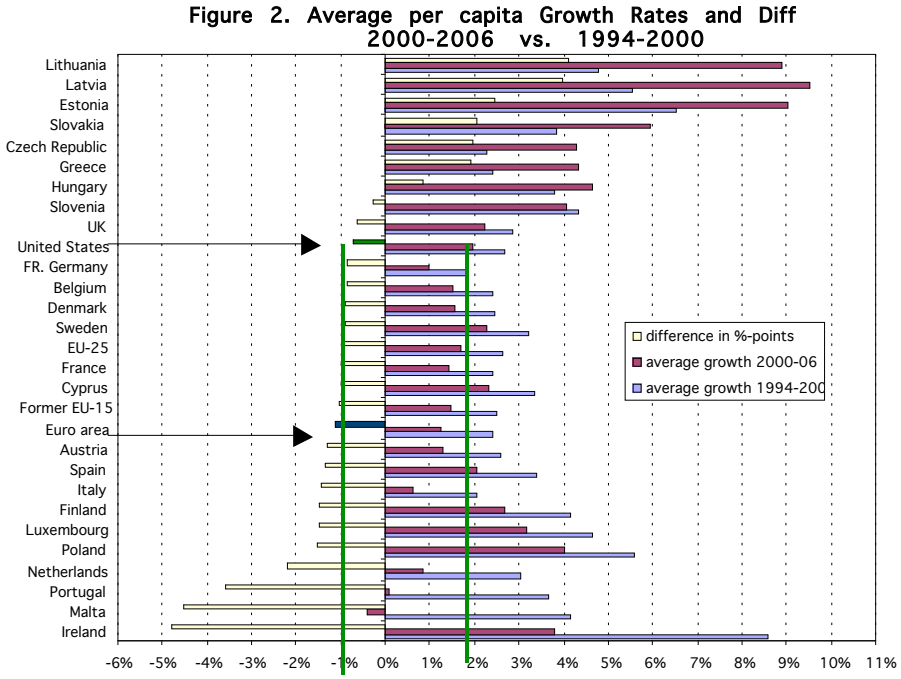
As a consequence, the economic governance of the EU has remained flawed by inefficiencies, lack of credibility and eroding legitimacy. This is now increasingly recognised, but unfortunately the logic underlying this failure is not. In its Communication to the Spring European Council, the Commission (2005) emphasised the need to create "political ownership" for the Lisbon goals. But once more, this was cheap talk. Ownership is not established by "streamlining existing guidelines" and by appointing "Mr. or Ms. Lisbon." Ownership implies property rights. Who is to be the

owner of European policies? Governments or the citizens? Ownership means rights to limit access and exclude non-performers. This is precisely how a modern democracy works: it gives citizens the right to select and reject governments as their agents. Ownership for Lisbon would imply the sovereignty of citizens and a proper European democracy. Europe's economic governance needs to be re-thought.

A disappointing performance: Comparing Euroland to the USA

Progress on the Lisbon strategy should be measured[8] against the headline objective of a "dynamic economy." It has been disappointing. Take per capita income growth as shown in Figure 2. Instead of increasing in the 6 years following Lisbon compared to the performance over the previous 6 years, it actually fell – except in 6 new member states and Greece, where it reflects catch-up growth. This is the opposite of what Lisbon sought to achieve. Although growth has also slowed down in the United States, often taken as a benchmark, in 16 EU countries out of 25 – including some of the biggest member states –per capita growth was less than in the US. Only Sweden, Finland, Poland, Luxemburg, Ireland and Cyprus experienced higher average growth. Interestingly, the EU25 as a whole does not perform dramatically different from the US; the problem is the Euro-area, where growth has been lagging significantly behind the American economy. The US growth rate is nearly 50% higher than Euroland's.

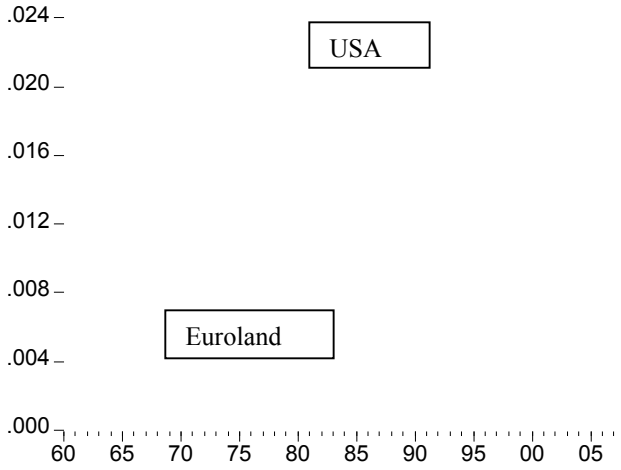
[8] All figures in this paper refer to the European Commission's AMECO database, unless otherwise specified.



How can the slow growth in Euroland be explained? Standard growth theory tells us that economic growth can be decomposed into the growth rates for employment and labour productivity. Given that the Lisbon strategy was aimed at medium to long term structural improvements, we are less interested in the short term fluctuations and wish to find the longer term trends. Figure 3 shows the evolution of employment growth trends in the Euro-area and the USA after smoothing by the Hodrick-Prescott filter. Employment growth in America has had a downward trend since the 1970s, falling by more than half from over 2.1 to 0.9 percent. In Europe, we notice the low growth rate in the 1960s and 80s, [9] a clear increase in the second half of the 1990s and stabilisation above 1 percent since then. In recent years the contribution from employment to growth has been higher in Europe than in the US. This is surprising, given that the labour market is often blamed for Europe's bad performance.

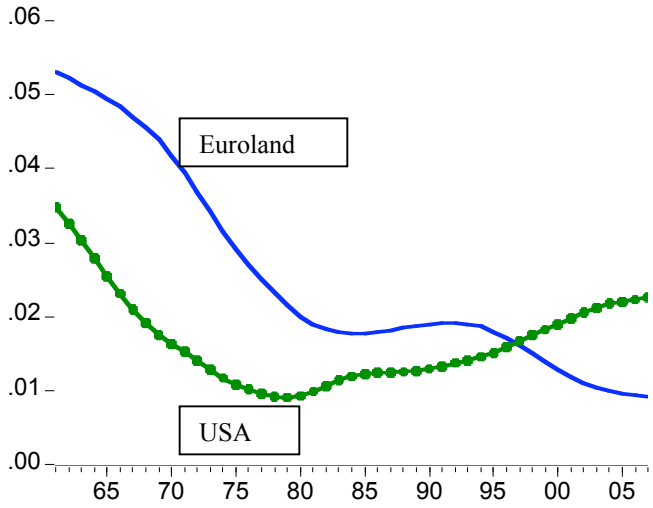
[9] The Euroland time series is missing Belgium before 1985.

Figure 3. Employment Growth Trends



The main reason for the better US income performance over the last decade is therefore essentially due to the higher growth in labour productivity. As Figure 4 shows, labour productivity improved in the US from the 1980s on, while it first stagnated in Euroland and then deteriorated after 1990. Since 1997, the growth trend for labour productivity has been higher in the United States than in Europe.

Figure 4. Labour Productivity Trends



Explaining labour productivity is not uncontroversial, but we know that it can be further decomposed into (a) human and capital investment per unit of labour, i.e. the capital intensity of production (also called capital deepening), and (b) output produced per unit of human and capital investment, i.e. total factor productivity (TFP).

Total factor productivity has slowed down in the 1960s and 70s, but gradually improved in the USA since the early 1990s. In Europe it went up in the 1980s when the single market was put in place, but then fell again in the 1990s. See Figure 5. There are no indications that the Lisbon Council has made any difference to this development, although it may have slowed down the deceleration.

Figure 5. Total Factor Productivity Growth Trends

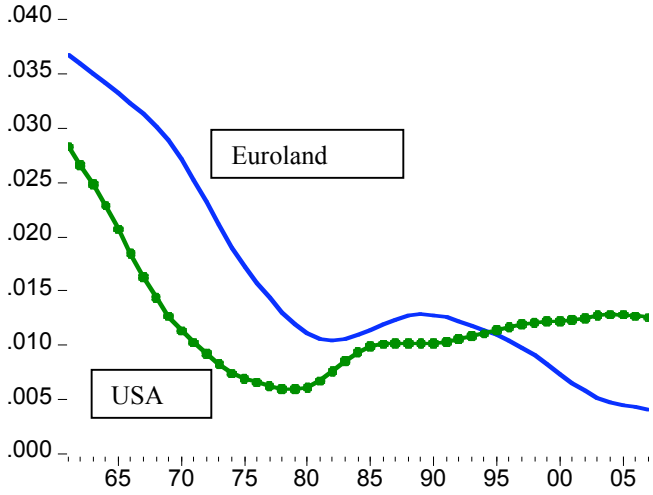
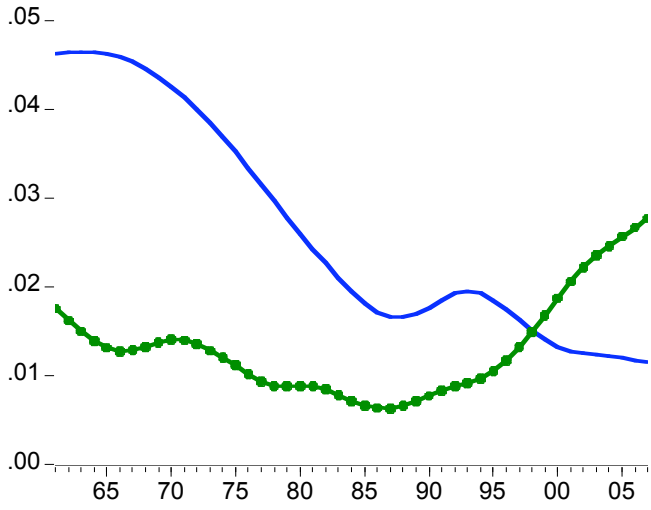


Figure 6. Capital Deepening Trends

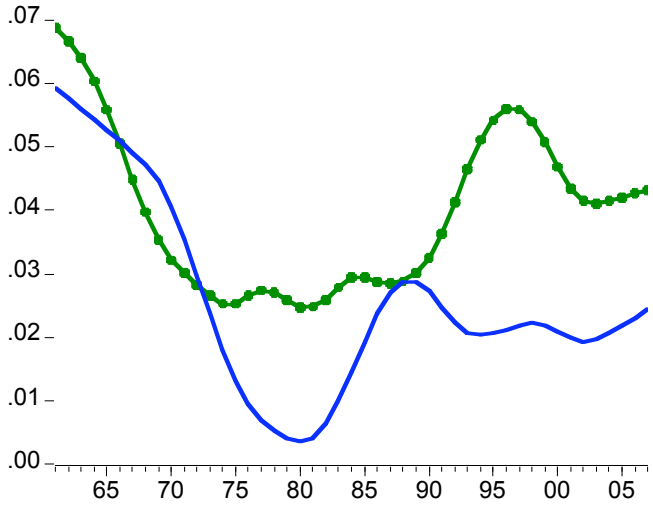


As is well known, growth in total-factor productivity represents output growth not accounted for by the growth in inputs. It is therefore dependent on a wide range of qualitative factors, such as technological innovation, learning, social regulation etc. Europe's low performance is usually attributed to these factors and this is where the supply-side agenda of Lisbon has a role to play. For example, Kok (2004:12) argues that the US were leaders in technical innovation, accounting for 74 % of top 300 IT companies and 46 % of top 300 firms ranked by R & D spending, while Europe was falling behind. However, while there is truth in this claim, as it would appear from Figure 5, one must not forget that innovation, knowledge, technology and skills must be incorporated into the stock of human and physical capital. Without investment, modern technology remains an abstract dream.

Figure 6 shows the trend performance of capital deepening. Here we find the most dramatic difference between Euroland and the United States. The US economy has gone through a process of rapid capital deepening since the early 1990s, beating all historic records; in Europe it is falling. Europe's problem, is low investment.

The differences between Europe and America are striking. On both continents investment growth fell dramatically in the 1970s, but in the US it stabilised in mid-decade, while it nearly collapsed in Europe amidst the monetary chaos following the breakdown of Bretton Woods (Collignon, 2002). Investment recuperated in Europe in the mid-1980, but it remained at fairly low levels. In the USA, however, investment per unit of output accelerated at an unexpected rate during the Clinton/Greenspan years and seems to have settled at a permanently higher rate than in the Euro-area.

Figure 7. Gross Investment Trend Growth



The question is then: why is the rate of investment so low in Euroland? While microeconomic factors are surely important at the firm level, aggregate investment must be related to the profits entrepreneurs expect to make in their different markets. This is where aggregate demand - and therefore macroeconomics - matter.

The flawed macroeconomic and institutional framework

If Europe wants to become "one of the most dynamic economies in the world," it will have to improve its macroeconomic management. The policy debate on macroeconomics frequently focuses on short term micro-management, particularly the role of monetary and fiscal policy in minimizing output volatility and stabilizing the business cycle. However, the fiscal and monetary policy mix has probably even more important implications for long-term economic growth. Critics have often accused the European Central Bank of being too restrictive and thereby impeding investment and growth. I will show that this argument misses the more important coordination failure resulting from the flawed institutional set-up for fiscal policy. An improved macroeconomic framework would require substantial institutional reforms in Europe.

Macroeconomic stability and investment

How should we measure the impact of the monetary/fiscal policy mix on the growth rate? Conventional econometric models of regressing monetary and fiscal variables on output have produced ambivalent evidence.[10] In particular, disentangling short term and long term effects is difficult. I will therefore attempt a different approach.

Where supply-side reforms and macroeconomic management meet is the performance of investment. Structural reforms can improve labour productivity and the elasticity of labour supply, thereby improving the potential rate of growth. But actual growth will only accelerate if aggregate demand stimulates investment. Firms create jobs when they see opportunities for profit. Lowering labour costs by implementing structural reforms and increasing productivity may be necessary to remain competitive with respect to international tradable goods and services, but domestic demand remains the key to overall economic performance. Take the UK. While supply-side reforms under Thatcher and Major have revolutionised British society, GDP in Britain increased on average 2.08 percent between 1979 and 1996, hardly more than in Mitterrand's socialist France, where it grew at 2.05 percent per annum. With Labour's new macroeconomic framework

[10] See for example Gros and Hobza, 2001. A remarkable exception is Aghion and Howitt, 2005.

introduced in 1996, UK GDP increased on average by 2.68 after 1997, compared to 2.08 percent in France. The reason was hardly lack of reformism in France or more supply side reforms in Britain. Between 1999-2006 domestic demand contributed 3.1 percent to U.K. growth, foreign trade subtracted 0.5 percent. Or take Germany. Under the Schröder government, an aggressive reform agenda has reduced unit labour costs by 10 percentage points below the Euroland average, far below any other country, but growth has remained elusive. While German exports exceeded those of all other countries in the world, GDP grew only by 1.1 percent p.a. from 1999 to 2006, and 1.3 percent p.a. in the 7 years before. Under Schröder domestic demand contributed only 0.46 percent to growth, foreign trade 0.76. [11]

It is sometimes asserted that in the age of globalisation, macroeconomic management does no longer work. This is wrong. After all, the USA or the UK also live in a globalised world. If we assume that at least half of the service sector is tradable, then the share of the EU15 non-tradable value added is still above 43 % and may be even larger.[12] Hence, there is a significant part of Europe's economy where profits depend exclusively on domestic demand. Comparing the two big economies in the world, domestic demand has contributed 3.5 percent in the USA, but only 1.9 percent to Euroland's growth. Furthermore, proper macroeconomic management will also influence foreign demand through the exchange rate. What is needed to stimulate investment is a policy where the interaction of monetary, fiscal and wage developments creates the incentive for firms to exploit profitable market opportunities. These incentives require returns on real investment that are higher than interest rates and a framework of stability that reduces the risk premium on investment due to uncertain expectations.

During the 1970s, 80s, and 90s, Europe has suffered from monetary instability that followed the breakdown of Bretton Woods international system. With the creation of monetary union, Euroland has regained monetary stability, but it has still not yet achieved

[11] Calculations from European Commssion, AMECO, 2006, code CVGD.
[12] I assume industry and 50% of services to be tradables, and the other 50% of services plus agriculture and construction industry to be non-tradables. Data from European Commission AMECO.

a policy mix capable of sustaining conditions for accelerating capital accumulation, growth and higher employment.

The first few years of EMU achieved a positive policy mix with historically unprecedented job creation (2.3 million in 1999, 2.4 million in 2000, 1.9 million in 2001, but only 280 thousand in 2003), but the experience was too short to make a significant impact on unemployment rates. We need to understand why. There are two possibilities: (1) high volatility due to macroeconomic instability deterred investment and created excess savings, or (2) a steady macroeconomic environment does not encourage investment because equilibrium interest rates are too high when compared to achievable rates and return on investment. In this section we focus on instability, in the next on the steady state.

When macroeconomic policy fails to stabilise shocks, the increased uncertainty will lead economic actors to ask for higher risk premia on the return on capital and this will lower investment. Therefore, stability of the macroeconomic environment matters for investment. If macroeconomic uncertainty can be modelled as the volatility (i.e. the conditional variance) of the growth rate of investment, we would expect a negative relation between uncertainty and the growth rate of investment (Collignon, 2002; Aghion and Howitt, 2005). The expected rate of investment would be a decreasing function of the conditional variance and the coefficient would measure the sensitivity of aggregate real investment to uncertainty. The time-varying equilibrium investment rate can be measured by an ARCH-M model (Enders, 2004), where the expected growth rate of the capital stock depends on the volatility of investment, measured by the weighted sum of past squared surprises. In other words, firms feel uncertain about investment prospects to the degree that shocks in previous periods affect this period's market conditions and on their experience of how much they have misinterpreted market conditions in the past. Table 1 gives the results for Euroland and the United States.[13]

[13] See also technical annex.

Table 1. ARCH-M Model for US and Euroland Investment

Estimation Equation:

==========

Investment = C(1)*GARCH + C(2)

GARCH = C(3) + C(4)*RESID(-1)^2 + C(5)*GARCH(-1)

The RESID(-1)^2 term describes news about volatility from the previous period, measured as the lag of the squared residual from the mean equation
The GARCH(-1) term is last period's forecast variance

Estimated Coefficients for Euroland:

EUROinvest = -0.272*GARCH + 0.0079

GARCH = 0.0001 + 0.438*RESID(-1)^2 + 0.326* RESID(-2)^2

Estimated Coefficients for USA:

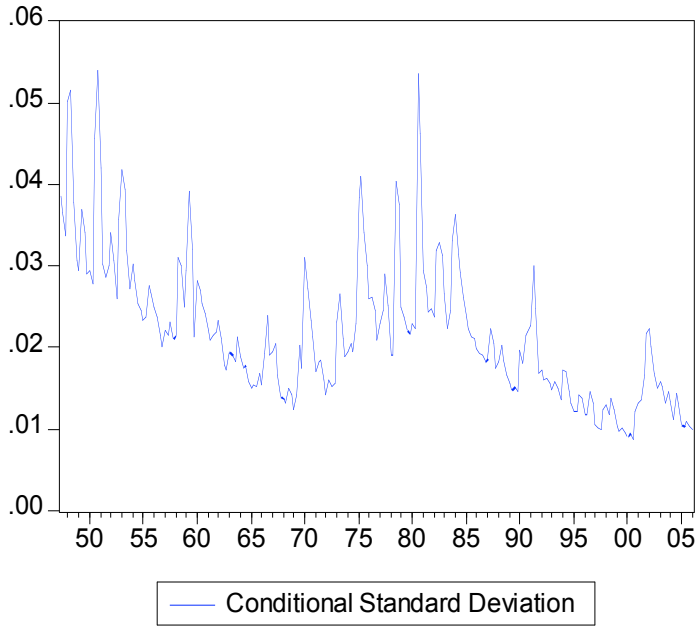
USinvest = -0.342*GARCH + 0.019

GARCH = -1.31E-07 + 0.281*RESID(-1)^2 – 0.563 Resid(-2)12 – 0.159 Resid(-3)12 + 0.935*GARCH(-1)

As expected, macroeconomic uncertainty (GARCH) reduces autonomous investment C(2). The rate of investment responds negatively to macroeconomic instability in both economies. Interestingly, the coefficient that measures the elasticity of this response is not dramatically different between the American and Euro-economy. It is -0.34 for the US, -0.27 for Euroland. However, the dynamics of uncertainty are different. In Europe uncertainty is strongly affected by cumulative expectation surprises in the last two quarters. Europeans seem to believe that when things are bad, they will get even worse. By contrast, in the USA, past surprises partially compensate each other. This may reflect more "flexible" market structures and more activist macro-policies in the United States. However, the net effect of these expectation errors is long lasting in its impact on today's uncertainty. Thus, greater macroeconomic stability is likely to have a more persistent positive impact on investment. This may in part explain the remarkable performance of the US-economy during the Greenspan years. But it is an interesting fact that whatever causes uncertainty in economic expectations, the reaction by firms for undertaking real investment is fairly similar on either side of the Atlantic, with Europeans slightly less responsive than Americans.

In general, real investment is more volatile in the US than in the Euro area (see Figure 8a). Our time series for the U.S.A. starts before 1950 and shows a period of diminishing volatility until the mid 1960s (during the Golden Age). A dramatic increase in uncertainty occurs during the break-up years of Bretton Woods and then a long period of returning to high economic stability during the Greenspan years. This trend is interrupted by the two Bush presidencies.

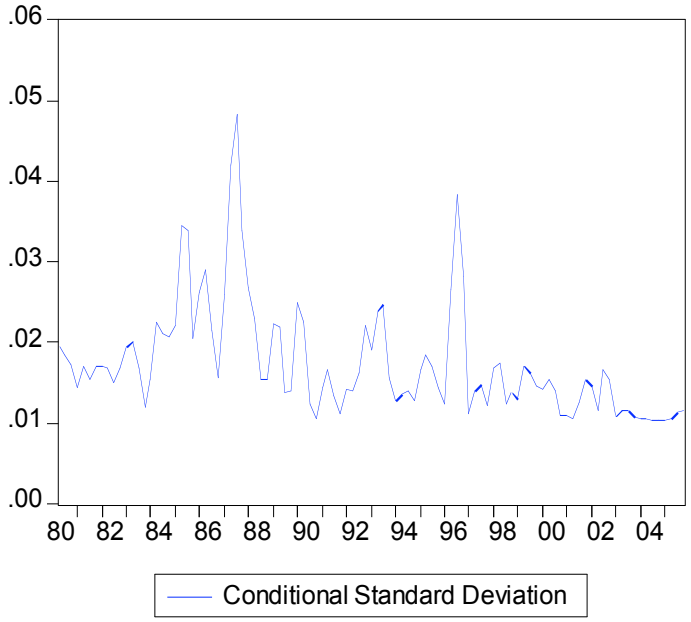
Figure 8a. USA: Volatility in the Growth of Capital Stock



For Euroland, our data series is shorter. After the set-up of the European monetary system, a higher degree of stability prevails at first, but is low in the second half of the 1980s. The 1990s are shocked by the ERM-crisis in 92/93 and financial instability in the mid-1990s. With the creation of the Euro a high degree of macroeconomic stability has been restored. This is an interesting result. It shows that European monetary union has attained its objective: stability. But why has the improved macro-environment not translated into higher growth? The answer is found in the low steady state investment growth in Euroland. Autonomous investment growth is more than twice as high in the

U.S. (1.9 %) than in Europe (0. 8 %). An explanation for this difference may be found in the long-term policy mix.

Figure 8b. Euroland: Volatility in the Growth of Capital Stock



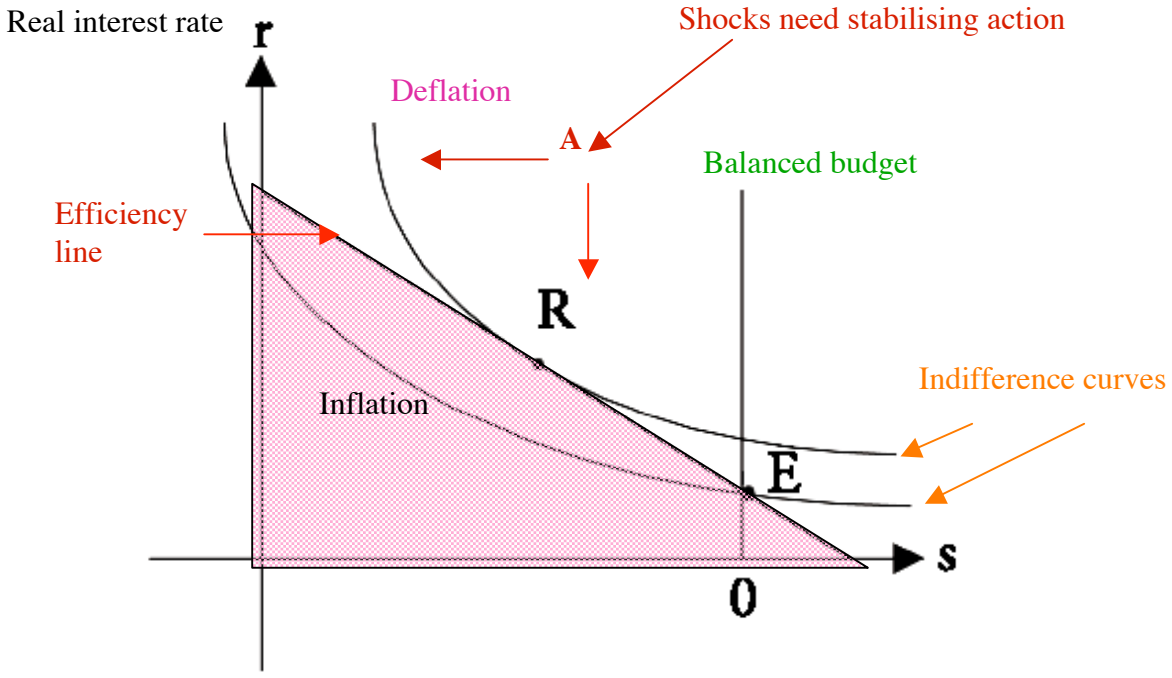
The Deficit, stupid!

In a large and fairly closed economy, the key to active demand management is the interaction between budget and monetary policy. This interaction may matter from a short term perspective when excess savings prevent potential output from being absorbed by effective demand or from a growth perspective in the steady state. The short term effect occurs when individuals will not hold real capital unless its yield exceeds some minimum required return. Keynesian policies seek to reduce interest rates to make real investment more attractive relative to financial assets or to increase the government deficit to provide demand for the resources that would not otherwise be used. Such policies are adequate to tackle the problem of excess savings, but they do not solve the problems with a low growth steady state, which is the European problem. As Feldstein (1980) has shown a long time ago, in an environment of price stability and reasonable stability of savings, budget deficits will *lower the accumulation of capital in the steady state*. One therefore has to distinguish between the short term effects for the fiscal-

monetary policy mix, which are supposed to restore overall macroeconomic stability after shocks, and the long-term growth effects of different steady-state policy mixes.

From a theoretical point of view, the interaction between fiscal and monetary policy should have a negative trade-off if the economy is in equilibrium. This is evident from Figure 9. The downward sloping efficiency lines represents the set of all efficient policy mix points where the economy is in equilibrium, without inflation or rising unemployment. Above the line, the combination between fiscal and monetary policy is too tight and the economy is in a deflationary position with rising unemployment. Below the line, the mix is too loose and inflationary pressures occur. For simplicity we will assume that the efficiency-line is stable.[14] The argument for a negative slope of the efficiency line can be made in terms of long term interest rates in the government bond market (Feldstein, 1980), or in terms of monetary policy adjustments in the short-term money market (Collignon, 2003, Annex 3).

Figure 9. The Optimal Policy Mix



[14] In a stochastic setting the shocks are i.i.d, and the efficiency-line would reflect the co-integrating vector. We cannot pursue this line of reasoning in this paper.

A loosening of fiscal policy, i.e. higher deficits, would then imply tighter monetary policy, i.e. higher interests rates, to keep inflation at bay. Tighter fiscal policies should cause rates to come down. The specific combination along the trade-off curve represents a specific policy mix. For example, the Reagan/Volker policy mix in the *1980s* reflected high deficits and high interest rates in the US. This is point R (Republican) in Figure 9. When Bill Clinton ran for President in 1992[15], he promised to bring the deficit down and intended to stimulate growth and employment by lower interest rates (Woodward, 2000). Thus, the democratic policy mix is somewhere near point E. The high growth and macroeconomic stability in the late 1990s was characterised by the Clinton/Greenspan mix of budget surpluses and low interest rates. These longer-term equilibrium positions on the policy mix trade-off curve are implicitly determined by collective time preferences for intergenerational tax burden sharing as they emerge from public debates. These choices can be represented by an indifference curve that picks an optimal policy mix out of the infinite possibilities assembled on the efficiency line. The public choice of a policy mix is the implicit result from electoral decisions and reflects a deeper consensus in society,[16] which emerges gradually from collective deliberation and political debates. These debates usually take place during electoral campaigns when competing parties bundle policies into specific programs. Of course, citizens do not debate in abstract terms: "What is our optimal policy mix?". But when parties and candidates propose a tax cut without saying where they intend to reduce expenditure, they implicitly suggest higher deficits and therefore higher interest rates. Choosing such a candidate implies choosing a policy mix. During the 1992 US elections, the budget deficit was widely discussed, due to the independent candidate Ross Perot. Clinton won as he captured the median voter. In 2000 Republicans promised to "return" the budget surplus to tax payers, while Al Gore sought to use it for improving health care. The implicit choice of a policy mix within a broader bundle of policies is therefore at the core of any democratic society.

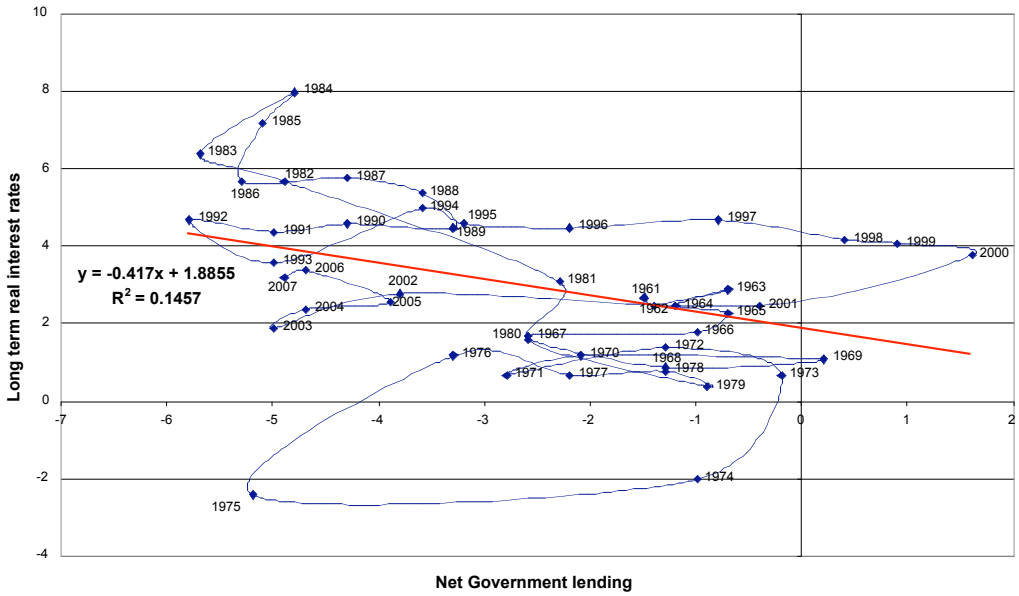
[15] His motto was "It's the economy, stupid!"
[16] For an explanation of the concept of "consensus amidst controversy" see Collignon and al Sadoon, forthcoming.

In Europe, the conduct of fiscal policy is more complicated and less democratic. From an economic point of view, what matters for the policy mix in the same currency area is the aggregate fiscal stance for the whole of Euroland that interacts with the single monetary stance of the ECB. Yet, in Europe's governance without a European government, fiscal policy is determined autonomously by 12 national governments. This creates collective action problems. The Stability and Growth Pact seeks to impose limits on the range of free-riding, by setting a rule of balancing structural deficits. This would guarantee a reasonably low equilibrium interest rate that would stimulate investment and growth as we have seen in the United States. But as Figure 1 has shown, the SGP rule is not implemented. Structural budget balances are not, on aggregate, balanced. It is, however, possible that the excessive deficit procedure under the Maastricht Treaty, which stipulates that countries' actual deficits must not exceed 3 percent of GDP, has more binding power, as it is associated with penalties if the rule is systematically violated. That failure to implement the SGP (balanced structural budgets) is due to "Europe's governance with many governments" which cannot deal efficiently with exclusive public goods. Fiscal policy is such a good. I now will show that Euroland's fiscal policy arrangement creates a bias for high equilibrium interest rates and therefore for lower steady state investment.

The SGP has often been criticised for being insufficiently flexible. However, it is not sufficiently understood that the Pact imposes effectively two forms of inflexibility: it constrains effective stabilisation policy in the short run, except for a limited range of automatic stabilizers. In the long run it impedes democratic choices regarding the intergenerational justice of tax burdens because it imposes a balanced structural deficit. The SGP is therefore incompatible with alternative choices on the efficiency line, such as the implicit shift from Reagan/Volker to the Clinton/Greenspan policy mix in America. The question is which of these two inflexibilities dominates Euroland? Given that macroeconomic instability has disappeared as we saw in the last section, short-term inflexibility does not seem to be the problem. The main problem with Euroland's economy must be the equilibrium position of the policy mix.

Figures 10a and 10b show the interacting movements between fiscal and monetary policies for the USA and Euroland. As expected, the long-term trend line reflects a negative trade-off. This is exactly what theory would have let us expect. The trendline has a slope of -0.417 in the United States and -0.473 in Euroland. Thus, the two economies operate in a remarkably similar fashion. The structural improvement of the aggregate budget position by one percentage point of GDP will lower the equilibrium interest rate by 41.7 base points in the US and by 47.3 base-points in Europe. If Euroland would stick to the Stability and Growth Pact, the equilibrium interest rate in the capital market would be a full percentage point lower. [17]

Figure 10 a. Policy Mix USA

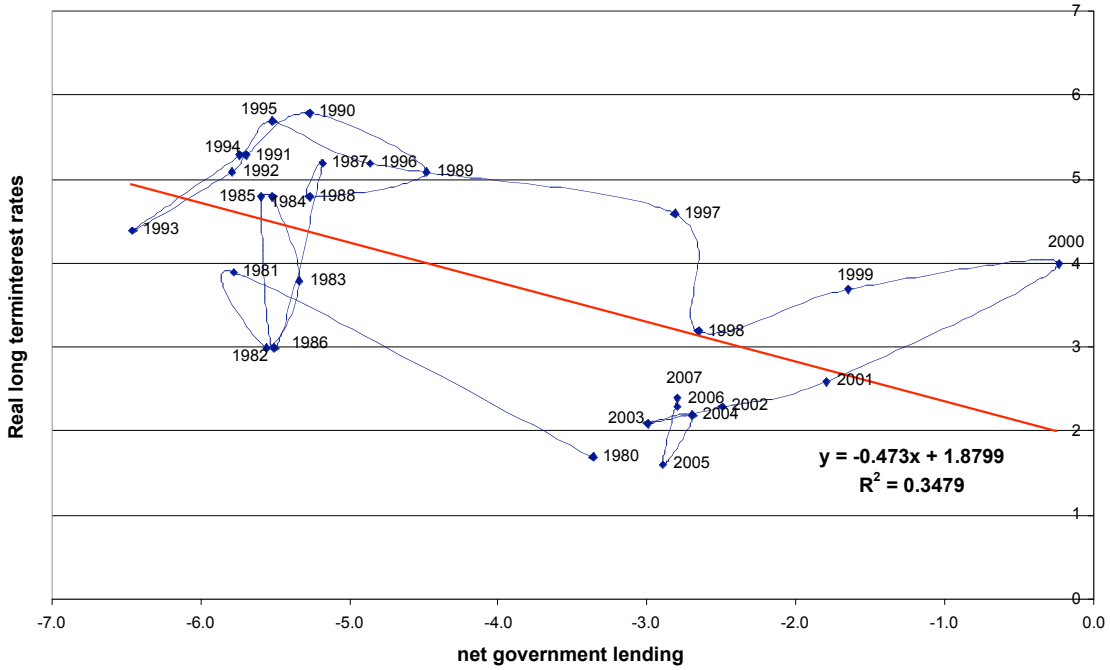


Shifts along the optimal policy mix curve seem frequent in the USA, see Figure 10a. The inflationary period (below the line) of the late 1960s and 1970s is clearly perceptible; the same applies for the Bush Jr. presidency 2001-07. The late 1980s suffered from overly restrictive policy mixes and high deficits and high equilibrium interest rates. It is interesting that the fiscal consolidation of the Clinton years has reduced the equilibrium interest rate by nearly 200 base points, but took place in the context of a relatively restrictive macroeconomic environment. A fuller explanation, taking into account the

[17] Thus balancing budgets would achieve the "euthanasia of rentiers" so famously advocated by Keynes.

effect of the exchange rate, would be required to explain the American performance. But the overall message is clear: balancing budgets lowers equilibrium interest rates.

Figure 10b. Euroland policy mix

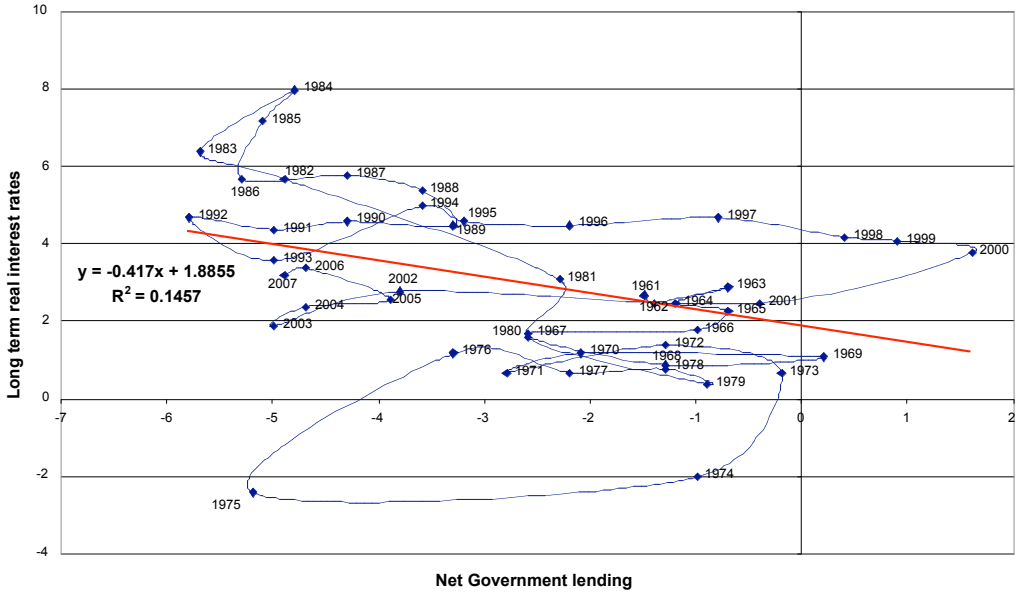


In Euroland a clear shift has taken place with the introduction of the euro. Figure 10b shows the cluster of excessively tight European policy mixes in the early 1990s. Given that deficits were high at that time, the restrictive bias must be due to inappropriate monetary policies, when Europe was dominated by the Bundesbank and repeated currency crisis in the European monetary system. After the ECB had taken over, Euroland's policy mix has become more accommodating. However, consolidation fatigue after 2000 has pushed the steady state policy mix back to the left again. This move can be explained by the collective action problem in designing a coherent aggregate fiscal policy stance.

Here is why. Assume we start in equilibrium and one government decides to borrow at the low prevailing rates. This is a demand shock that pushes the whole system into an inflationary disequilibrium and requires macroeconomic tightening. However, because the aggregate budget position is determined as the random outcome of each member

state's policy, fiscal policy cannot be used as stabilisation policy instrument for the integrated Euro-area. In other words, no other country will change its own policy stance and consolidate in order to keep the aggregate policy mix in equilibrium. Only monetary policy has the flexibility to respond at the European level. If the aggregate deficit has increased because of uncoordinated national policies, euro-interest rates need to go up. Thus, the apparent monetary tightness of the ECB is the product of Europe's "governance with many governments". The higher equilibrium interest rates may affect economic growth in all member states negatively, so that all national budgets are falling into deficits. The picture of fiscal indiscipline emerges, which pushes interest rates further up. These countries will now complain that interest rates are "too high", although the ECB has simply restored macroeconomic equilibrium. The new equilibrium, caused by the free-riding behaviour of one actor, reflects a higher aggregate structural deficit and higher interest rates for all. Because Euroland's citizens cannot democratically determine the aggregate policy mix along a stable trade-off curve, the central bank has a persistent bias for conservatism.

Figure 10 b. Policy Mix USA



Increasing the efficiency of the policy mix would require turning the aggregate budget stance into a policy tool for stabilisation policy and at the same time imposing strict discipline on individual member states to stick to the defined policy. Thus, *the correct reform of the SGP would be more flexibility for the aggregate fiscal policy position and less discretion for individual member states*. The "reform" of the SGP in 2005 has achieved exactly the opposite: individual countries have now more leeway to justify higher deficits, while the aggregate position is the random outcome of uncoordinated free-riding. The consequences are higher equilibrium interest rates, lower growth and more unemployment. Europe will remain the least dynamic region in the industrialised world economy.

One may object that after eliminating the exchange rate as an adjustment tool, national budgets must absorb asymmetric shocks in EMU. However, the likelihood and intensity of asymmetric shocks has greatly fallen in Euroland and economic growth has become more uniform. The standard deviation of the 12 euro-member states' growth rates in 2005 is only 1/3 of what it was in 1999. Euroland is converging – although to a low common growth rate. This fact highlights the increased importance of the policy mix for the whole of Euroland, while national discretion in fiscal policy would be counterproductive and damaging.

Moreover, there are some simple ideas in the public debate about how to design coherent yet flexible institutional arrangements for fiscal policy in Euroland (see Amato, 2002; Casella, 2001; Collignon, 2004a). For example, one may define the optimal aggregate fiscal stance at the Euro-level by transforming the Broad Economic Policy Guidelines into a "DPDF europeo".[18] This would give flexibility in reacting to macroeconomic shocks. The aggregate stance would then need to be broken down into national (and even regional) deficit quota for which each jurisdiction would obtain deficit permits. If one

[18] See Amato, 2002. Documento di programmazione Economico-Finanziaria (DPEF – Document of Economic and Financial Programming) is the Italian macroeconomic framework law, which gets voted before the finance minister can put forward his annual budget. France's Vth Republic introduced a similar tool to overcome the budgetary inconsistencies of the IV Republic.

jurisdiction does not use its quota, it would be allowed to sell the permits to another authority that wishes to borrow more. This system, inspired by tradable pollution permits, would achieve vertical flexibility reflecting fundamental preferences for borrowing and taxes, and horizontal flexibility between different jurisdictions and overall coherence in the fiscal position.

The question of democracy

However, setting up the improved institutional framework for macroeconomic policy faces the same problem as the Lisbon supply-side agenda: potential benefits are huge, but national governments stand in the way of achieving them. The issue of improved policy coordination is ultimately dependent to the issue of democratic legitimacy. Therefore, Europe needs to tackle the core issue of its governance: democracy.

I have discussed the issue of fiscal policy and democratic legitimacy in a separate paper (Collignon, 2007; see also Collignon, 2004a). The problem is the following. According to the classical definition, a democratic constitutional state is a political order "created by the people themselves and legitimated by their opinion and will-formation, which allows the addressees of law to regard themselves at the same time as the authors of the law" (Habermas, 2001). Thus, voting for a government is the political act that allows citizens to regard themselves as the ultimate authors of laws, i.e. as the sovereign. But prior to vote, political debate is a necessary condition for collective will-formation.

However, in the European Union, policy decisions are not democratic in this sense. Certainly, citizens are able to revoke national governments at national elections after a national debate has produced the collective will within this constituency. But, with respect to European public goods, national governments act as the agent of a "principal" that is only a fraction of the European population. These national agents will then decide policies at the European level that will affect all European citizens, although they represent only the will of some European citizens.[19] This means that the democratic will

[19] In representative democracies members of parliament are elected after a national debate structured by the campaigns of political parties. These campaigns are constitutive elements of will formation. In the EU, the

formation in one country has externalities for all other national constituencies. With respect to stabilization policy, this externality is a consequence of unifying the monetary system and having a single interest rate determined by the European Central Bank. In general, policy compromises negotiated at the European level are superimposed on a majority of citizens who were not involved in the process of collective will formation and therefore do not consider themselves as "authors of law". As this process is repeated for every individual country, European policy decisions will never command the same degree of democratic legitimacy as national decisions.

This creates the perception of a "democratic deficit" in Europe. Moravcsik (2002) argues that this is simply the way "advanced industrial democracies" operate, because technical functions of low electoral salience are often delegated to specialized institutions. For these matters, output legitimacy (good results) trump input legitimacy (the right to choose). This view may have been justified when European integration was relatively narrow. It may be valid for the "governance without government" that regulates inclusive public goods. But at a time when European policies such as monetary policy or the Lisbon agenda touch every European citizens' way of life, and when fiscal coordination reaches the sacrosanct domain of "no taxation without representation", European citizens must have a right to choose. Yet, the only institutional channel through which they can express themselves today is national democracy and not European democracy. As a consequence, national interests dominate the European interest and collective action problems prevent efficient policies. Europe has attained a point where the lack of input legitimacy is undermining output legitimacy.

Conclusion

The prospects for Europe's future are bleak, but not hopeless. If Europe continues with the undemocratic intergovernmental approach of Lisbon, it takes little imagination to see that after 50 years of European unification, the European Union will die a slow death by gridlock, economic stagnation and unkept promises. Nor can we exclude a more violent

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Council operates more like an eternal parliament that replaces its members exclusively through by-elections, but no campaign takes place because none is accountable to the whole European constituency.

crisis with extreme right wing parties coming into power and blocking all progress. Alternatively, Europe takes a leap forward and creates a proper democracy, where all European citizens choose their common government for the administration of European public goods. European policy choices are then the outcome of democratic debates. I have called this the *European Republic* (Collignon, 2003; 2004), the Belgian Prime Minister Guy Verhofstadt (2006) the *United States of Europe.* However, the fundamental dilemma remains: which national government will wish to set up a European democracy if it loses its own power? Perhaps the only way forward is that citizens mobilize themselves and work through political parties in Europe. After the collective trans-European deliberation, which follows from party competition, a new democratic consensus might emerge and impose citizens' preferences for democracy on resistant national governments.

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Annex

Euroland Quarterly

Dependent Variable: EURO_QUARTER
Method: ML - ARCH (Marquardt) - Normal distribution
Date: 06/04/06 Time: 13:26
Sample: 1980Q2 2005Q4
Included observations: 103
Convergence achieved after 23 iterations
Variance backcast: ON
GARCH = C(3) + C(4)*RESID(-1)^2 + C(5)*RESID(-2)^2

	Coefficient	Std. Error	z-Statistic	Prob.
@SQRT(GARCH)	-0.272058	0.371735	-0.731859	0.4643
C	0.007970	0.005570	1.430964	0.1524
Variance Equation				
C	0.000106	3.92E-05	2.690469	0.0071
RESID(-1)^2	0.438561	0.229310	1.912523	0.0558
RESID(-2)^2	0.326469	0.239623	1.362426	0.1731

R-squared	-0.040404	Mean dependent var	0.004731
Adjusted R-squared	-0.082870	S.D. dependent var	0.017706
S.E. of regression	0.018425	Akaike info criterion	-5.283531
Sum squared resid	0.033269	Schwarz criterion	-5.155631
Log likelihood	277.1018	Durbin-Watson stat	2.295435

US Quarterly

Dependent Variable: GR_FI_US
Method: ML - ARCH
Date: 06/02/06 Time: 18:08
Sample (adjusted): 1947Q2 2006Q1
Included observations: 236 after adjustments
Convergence achieved after 39 iterations
Variance backcast: ON
GARCH = C(3) + C(4)*RESID(-1)^2 + C(5)*RESID(-2)^2 + C(6)*RESID(-3)^2 + C(7)*GARCH(-1)

	Coefficient	Std. Error	z-Statistic	Prob.
@SQRT(GARCH)	-0.342548	0.209732	-1.633266	0.1024
C	0.019016	0.003665	5.188743	0.0000

Variance Equation

C	-1.31E-07	4.04E-06	-0.032425	0.9741
RESID(-1)^2	0.281047	0.102087	2.753017	0.0059
RESID(-2)^2	-0.056367	0.119778	-0.470595	0.6379
RESID(-3)^2	-0.159850	0.069779	-2.290807	0.0220
GARCH(-1)	0.935525	0.033684	27.77359	0.0000

R-squared	-0.024989	Mean dependent var	0.010338
Adjusted R-squared	-0.051845	S.D. dependent var	0.022270
S.E. of regression	0.022840	Akaike info criterion	-4.868640
Sum squared resid	0.119458	Schwarz criterion	-4.765899
Log likelihood	581.4995	Durbin-Watson stat	1.264102