Association d'Instituts Européens de Conjoncture Economique (AIECE)

AIECE General Report:

Part 1

For the AIECE Spring Meeting 2019 The Hague, May 9–10, 2019

Statistisk sentralbyrå
Statistics Norway

AIECE General Report:
Part 1

May 9–10, 2019

Authors

Roger Hammersland, roger.hammersland@ssb.no

Finn Roar Aune, finn.roar.aune@ssb.no

Kim Massey Heide, kim.massey.heide@ssb.no

Vetle Westlie, Vetle.Westlie@ssb.no

Statistics Norway
Akersveien 26
0177 Oslo

Abstract:

The General Report was prepared for the AIECE (Association d'institutes Europeens de Conjoncture Economique) Spring Meeting 9-10 May 2019 in The Hague. It summarizes the assessment of the AIECE member institutes regarding the economic situation and the outlook in the euro area and in the home economies of the AIECE member institutes.

We would like to thank all AIECE member institutes who participated in the AIECE General Report survey. Their answers greatly contributed to this document.

Contents

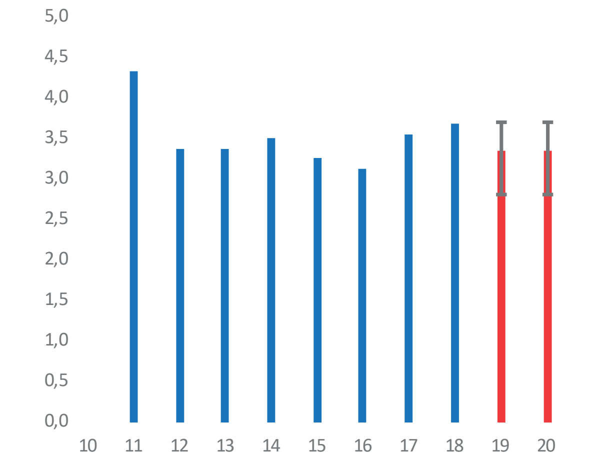
1. Key Global Developments

After a period of relatively strong growth, global growth is expected to decline in 2019-2020 by most AIECE institutes. The 2019 average growth estimate of the AIECE members is fully in line with the forecasts of the IMF who expect global activity to grow by 3.3 percent this year. For 2020, on the other hand, the IMF's forecasts appear to be rather more optimistic than those proposed by the AIECE members, who on average expect global GDP growth that year to remain at 3.3 per cent.

The factors reducing expected GDP growth across the world are to a large extent common, trade tensions threaten integrated supply chains, and spillovers from both ensuing tariffs and non-tariff barriers to trade are likely to reverberate far beyond the original protagonists' immediate trading partners. Especially countries reliant on external funding denominated in dollars – notably Turkey and Argentina – are highly susceptible to even minor changes in investor sentiment driven by either domestic or external macroeconomic shocks. Several Euro-area countries seem to face structural issues limiting potential growth from climate change or the policies to mitigate it. Germany has seen both, with unusually low water levels in the Rhine creating an industrial production bottleneck, and with the introduction of more realistic emissions testing of vehicles (WLTP) highlighting the domestic car industry's reliance on perfecting existing internal combustion technology rather than adapting transportation to a low carbon future of perhaps, electric, rather than crude oil powered vehicles. Furthermore, political uncertainty due to democratic upsets, such as but not limited to Brexit, must be seen in light of voter disillusionment with job prospects - both in terms of salary levels but also in terms of conditions and hours. Involuntary part time work, Zero-hours contracts and other barriers to mandatory legal protections invented by new-fangled 'apps' in a legal system already riddled with barriers to coordinated negotiating (trade unionisation) have upset stable oligopolies of political power in country after country, with new unpredictable entrants catering to the disillusioned. Until quite recently prospects of tighter financial conditions and signs of a slowdown in China have also weighed heavily on the sentiment.

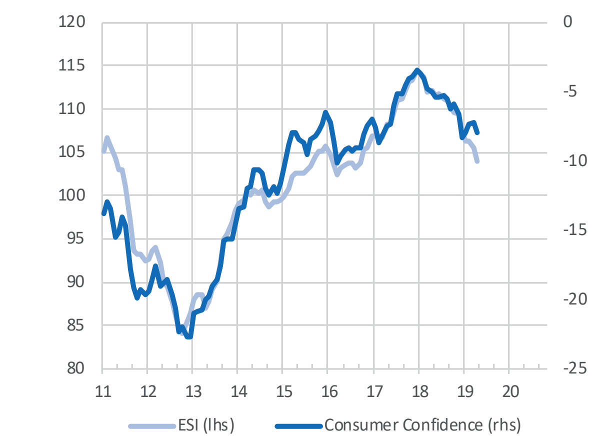
However, financial conditions which until quite recently appeared to be almost pre-destined for a period of unbridled tightening, have since the turn of the year eased considerably, as several central banks - led by the US Federal Reserve - have made a U-turn with respect to former policy plans, abandoning both interest rate hikes and a further normalisation of their balances. Starting in July, it can in this context be mentioned that the Swedish central bank – in addition to leaving its policy rate at -0.25 per cent for an extended period of time – recently has decided to start a new bond-buying program lasting 18 months. In the US sluggish inflation numbers are persistently overshadowing firmer growth and teeing up

Figure 1.1: Global GDP, per cent change , volume



Source: IMF, AIECE institutes. All Institutes with the same weight. Error bands indicate the upper and lower extremes of the institutes› projections.

Figure 1.2: Confidence indicators for the Eurozone



Source: Macrobond and the European Commision

a debate in the Federal Reserve over whether the next move in interest rates may need to be down rather than up. The public demands by Donald Trump, US president, for rate cuts are not making these Fed deliberations less intriguing. The central bank does not want to appear to be badgered into easing policy by Trump, given how zealously it guards its mandate of independence. Nor does the Fed want to panic markets by appearing overly dovish. Lately, markets seem also to have become rather more optimistic about an impending US – China trade deal and fear related to a possible slowdown in China has been somewhat alleviated by the prospect of concerted counter-cyclical policy measure undertaken by monetary and fiscal authorities.

Despite this, risk remains still clearly tilted to the downside. Confidence indicators are still weakening and even though there are rumours of an imminent Sino-American trade deal, it seems as if chances for a definite end to the trade conflict are rather limited. For that to happen, there is probably too much at stake for both parties. The

Chinese will hardly admit technology theft, much less wish to put an effective stop to it. In addition, the state subsidised financing of Chinese industry and business is likely to be such a significant part of the Chinese growth strategy that it can hardly be the subject of real negotiations.

1.1 Moderating growth in developed economies

The global economy is characterized by a cyclical upturn that, besides being increasingly weaker, now seems to become gradually more synchronized, at least within the OECD area.

In the US, we now see signs of growth being about to decline. To be sure, growth in the first quarter came in surprisingly strong and was considerably higher than what is reckoned to be the trend growth rate of the US economy. But the picture is complicated by a number of factors. First, the US headline growth figures probably vastly overstated the economy's underlying strength as growth to a large extent was driven by a combination of stockpiling and a precipitous fall in imports. Furthermore, several ongoing figures and indicators such as a key measure of underlying private demand and the last published ISM index for April, indicate that the slowdown seen so far may be the beginning of an impending cyclical downturn. Adding to these concerns are weak inflation data which shows that US price growth is decelerating even as wage growth firms up and unemployment currently hovers at record lows. It is in this context telling that the core personal consumption expenditures price index rose at a meagre 1.3 per cent annualised pace in the first quarter.

As far as the US labour market is concerned the positive development continues. However, there is great variation in unemployment between economic regions and although the labour market has been increasingly tight in recent years, wage growth, which often picks up following such a development, has until quite recently been very subdued. Many explanations for the lack of wage growth have been highlighted, including the occurrence of involuntary part-time work. Although the measured unemployment rate is at a record low, it masks massive underemployment in the sense that a substantial fraction of workers is involuntarily working part-time or in jobs they are overqualified for (See Katz and Kruger (2016)). Actual unemployment is therefore likely higher than what the figures indicate. Other explanations for the absence of wage growth are an aging population, increased degree of globalisation and greater competition among companies, as well as increased market power for larger companies. If wage growth remains low in the future, it will continue to have a dampening effect on general price inflation. A corresponding effect is seen on the value of the US dollar, which has continued to strengthen against most currencies since April last year. In the Euro-area output growth peaked at 2.5 per cent in 2017. Since then it has declined, with the most recent forecasts of the AIECE institutes suggesting that real GDP is expected to grow at 1.4 per cent both this year and the next. Considering the above-mentioned economic and political uncertainties, these forecasts may be revised downwards further still, although some provisional data in first quarter of this year have provided grounds for cautious optimism.

Developments in the EU countries outside the Euro-area have recently been more mixed. While the Danish and Norwegian economies have both been going through a period characterised by fairly resilient growth and the Swedish economy picked up sharply in the last quarter of 2018 – after having contracted in the previous quarter – growth in the UK had more than halved by the end of last year. Also, in Switzerland and Hungary there are now clear signs of the economies having passed their respective peaks in the current business cycle upturn.

However, the EU and the Euro-area are also haunted by several other weaknesses related to former sins of omission, one of them being related to the fact that income inequalities have been rising for decades, while longer-term, structural secular developments are further exacerbating the issue, especially if left unchecked. This tendency of greater inequality is associated with a number of features, the imposition of deregulatory labour market reforms and the decline in the scale and scope of collective bargaining probably being among the most prominent of these. As found in recent research (ETUI, 2019) and further documented by the OECD[1] the combination of recent economic growth and labour market deregulation has in fact led to structural changes in the EU labour market. While the number of unemployed people has returned to pre-crisis levels, the jobs themselves and the workers performing them have changed significantly. These changes have not always been symmetrical: while the level of educational attainment amongst workers has risen, the quality of jobs offered to them has in many respects declined. One of the clearest indications of this is the expansion of various forms of non-standard employment contract over the past ten years – such as temporary work, short-hour jobs, subcontracting or employee-platform work – often formally classified as self-employed while encompassing a multitude of the characteristics of being an employee for the worker, while not encumbering the employer with commensurate pay or protections. These kinds of work carry a multitude of risks for workers, including but not limited to physical harm and ill health, but also in-work poverty and exacerbated social inequalities. This is in part related to the volatility of work, the lack of standard worker protections and the insufficient and/or unpredictable availability of work or of pay levels.

The deregulation of labour markets is one of the underlying factors behind the disturbing long-term trend of subdued real wage development. As documented

[1] OECD Compendium of Productivity Indicators 2019 http://www.oecd.org/newsroom/low-productivity-jobs-continue-to-drive-employment-growth.htm

recently (ETUI, 2019) in ten EU Member States wages are still at or even below the level they were at ten years ago, while real wage growth is lower than productivity growth in the majority (15 of 28) of EU countries. In all these countries, workers are receiving a declining share of the national wealth they contribute to; a phenomenon seen clearly in aggregate wage share statistics that continue to fall. As well as raising the issue of fairness, it risks a backlash, companies exist and profit from satisfying demands because democracies allow them to and see them as beneficial, the idea of 'setting business free' is a misnomer, all economic activity relies on rules, infrastructure and dispute resolution mechanisms. Along with the economic environment and labour market deregulation, other explanations for low or non-existent real wage growth include labour market slack and the policy of weakening the bargaining position of workers through scale and scope of collective bargaining structures.

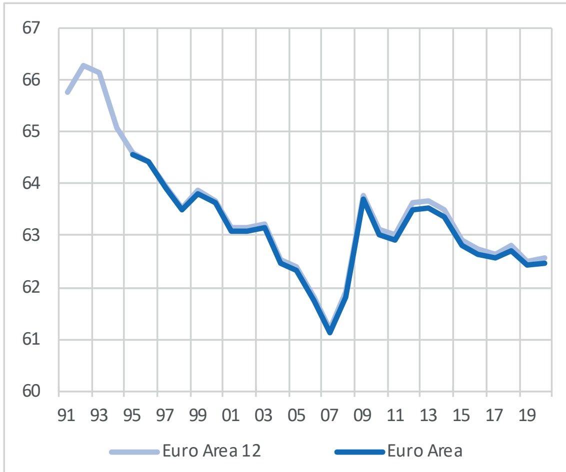
Although growth picked up somewhat in Japan during the last quarter of last year, growth was weak given that it came in the wake of a sharp fall the previous quarter. Several ongoing figures and indicators also indicate that the scene might be set for a new low reading in the first quarter of this year.

1.2 Emerging economies

In several of the countries outside the OECD area there are also signs that growth is about to decline. This applies not least to China, where growth continued to fall further in the first quarter of this year. However, the Chinese central bank (PBOC) has recently removed the word "neutral" from the characterization of its monetary policy stance. This may indicate that the government is preparing for a new injection of liquidity. In combination with the prospects of new fiscal measures, this can help reverse the negative trend, indicating that the first quarter might come to mark the low point of China's growth cycle so far. Indeed, the fact that local governments sold bonds worth 1.2 trillion yen in the first three month of this year indicates that this process may already have started. Further evidence that the stimulus is taking hold has also come from property prices, which have risen strongly in recent months as local governments relaxed measures previously introduced to curb them. There is also some evidence that China is moving away from its reliance on traditional industries such as cement to stimulate its economy. Production of telecommunications equipment increased more than 10 per cent year on year in March, driven by investment in new 5G data networks — fueling suggestions that in future China may find a way to grow while also reducing its environmental impact.

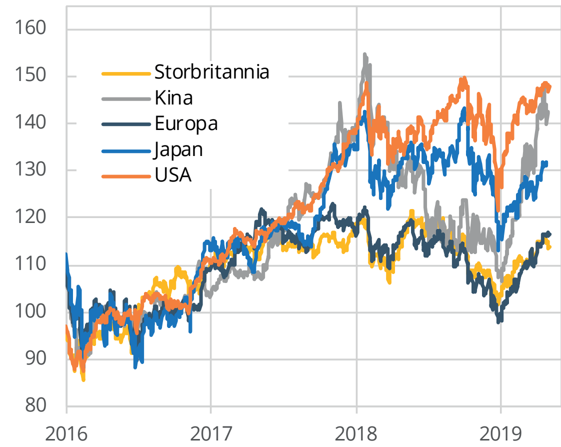
Though growth in India rebounded slightly in the final quarter of last year and again came in higher than in China, it has been on a declining trend since the end of 2017. However, a still relatively low oil price in combination with expansionary policy on part of the authorities, should help support growth in India ahead. Recently, the central bank of India has also lowered its policy rate a couple of times. It has also contributed to finance fiscal expenditures directly over its balance sheet by printing money.

Figure 1.3: Wage share, 1991-2018 (wages in percentage of GDP at factor costs in the Euro Area)



Source: Makrobond and European Commission

Figure 1.4 Equity Indices. 2016=100



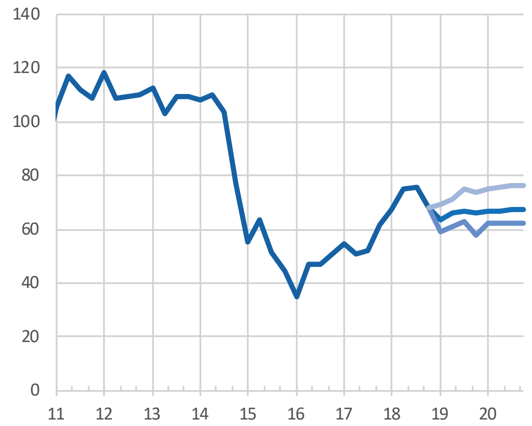
Source: Macrobond

In the two commodity producing countries, Russia and Brazil, growth has, after several years of weak and sometimes even negative growth, recently showed signs of picking up. In the case of Russia this is probably related to increased oil exports because of OPEC's desire to compensate for the loss of production from Iran and Venezuela.

1.3 Financial markets

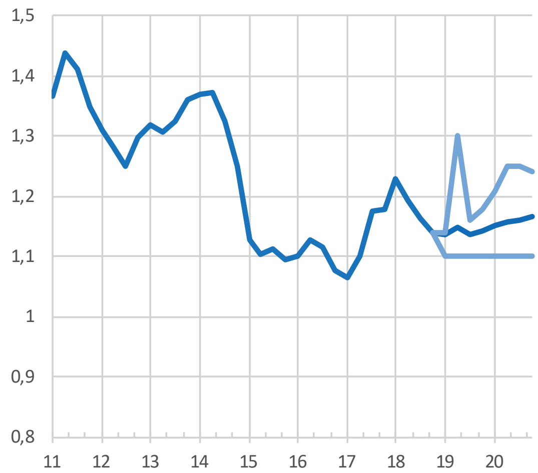
At the beginning of December last year several central banks were busy tightening a policy which at that time was perceived to be overly expansive. With interest rate rises and still hawkish rhetoric from the Fed, prospects of an escalation of the Sino-American trade conflict and signs of declining growth in China, the stock market reached its low point on Christmas Eve, only two days

Figure 1.5: Crude oil prices, Brent, USD pb, average over period



Source: Macrobond and AIECE Institutes. Error bands indicate the upper and lower extremes of the institutes projections (n=18)

Figure 1.6: Exchange rates, USD per Euro



Source: Macrobond, Macrobond and AIECE Institutes. Error bands indicate the upper and lower extremes of the institutes projections (n=15)

after the news of a shutdown of the US state administration. However, since then there has been a sharp correction in the stock market, and even if a rebalancing of portfolios and liquidation of short positions can explain much of its initial phase, it is hard to underestimate the role monetary policy and growth prospects in China have played.

Much may therefore indicate that the US central bank's decision to postpone further interest rate increases - and similar decisions made by the central banks in the UK, Japan and Australia - have been very important for developments in international stock markets after the turn of the year. It is instructive to consider where international stock markets might have been if the central banks in general - and the American one in particular – hadn't rescued investors when the outlook was bleakest in December last year. Furthermore, it also raises questions about the stock market's ability to generate growth on its own, without any form of intervention by the authorities, a prerequisite if the current level of the stock market is to be said to be in accordance with fundamental conditions. By interfering to bail out markets as in previous plans, the US central bank has recently shown that it is willing to rescue the market if only the problems are big enough. In isolation, this will help reduce the risk of new major corrections in the US stock market in the short term. On the other hand, such a strategy - if followed - will also mean delaying a recurring problem which may become increasingly difficult to deal with as time goes on and the rescue operations must be repeated. Admittedly, each rescue operation will help keep the illusion of market value alive, but as the uncertainty grows and the market is more fragile, this will come at the expense of ever lower interest rates and more liquidity supply. Meanwhile, the debt will continue to grow, while each rescue operation will produce less and less real economic growth while the stock market and wealth disparities will rise to ever new record levels. This is hardly a sustainable line of development conducive to real wealth creation in a slightly longer perspective.

1.3.1 Rising Crude Oil prices

Overall, crude oil prices have been on an upward trend after it reached a local minimum during December of last year. In late April this year the price of Brent Blend just surpassed US $75 per barrel, almost 50 percent up from the low point in December, before adjusting to the current level – at the time of writing of just above $70 – on surging US production and diminished fears of a supply crunch. Most recently it has been the decision by the Trump administration to terminate selective sanction waivers on Iranian oil imports – and market concerns over the capacity of OPEC to fill the void – that has been the main reason for the upsurge. But also fears related to Venezuelan, Libyan and Nigerian supply disruptions and production curbs by OPEC producers and their external non-cartel allies, have contributed to pull prices up since December last year. On the other hand, the fear of a protracted and even escalated trade war in combination with the prospect of a weaker international business cycle continue to weight on oil prices. The price is still considerably lower than in October last year when the price reached $86 at its highest.

1.3.2 Where is the Euro/Dollar rate going?

The Euro has continued to weaken against the US Dollar since the end of Q3 2018. As of the end of April this year, the Dollar/Euro exchange rate is at approximately 1.12, implying that the Euro has lost more than 3.4 percent as compared to the end of Q3. AIECE institutes expect the Dollar/Euro exchange rate to remain at 1.12 to Q4 2019 and strengthen slightly to 1.14 by the end of 2020. Out of 15 respondents, 4 institutes expect a further depreciation of the Euro, while 8 institutes expect the common currency of the euro area to appreciate. The remaining 3 institutes expect a stable exchange rate.

Questions for discussion

1. Where would international stock markets have been if central banks in general – and the US Federal Reserve in particular – had not stepped in with further exceptional monetary policy in December 2018, when the outlook was at its bleakest?
2. Do you believe current stock markets values represent exceptionally efficient allocation of capital and so may be said to be in accordance with fundamentals? Or do the current levels represent rent-seeking?
3. The ongoing negotiations between the US and China seem to have gone awry. If the US really does impose the punitive tariffs Trump mooted on Twitter recently, then US import tariffs will be up there with many emerging markets economies. If so, what will be the likely consequences of such a move and what can be done to alleviate its consequences?

2. Outlook for Europe

2.1 Euro Area Growth Outlook

Growth expectations in the Euro-area have been moderated somewhat since the end of 2018, with mean GDP growth forecast at 1.4 per cent to 2020 by the AIECE institutes[2]. For the European Union, expected GDP growth is forecast slightly higher, at 1.5 per cent for 2019 and 1.6 per cent for 2020 (14 answers for each year). These growth expectations suggest that the economies in the Euro-area are slowing down somewhat – GDP growth in 2018 was 1.8 per cent. Since the last AIECE meeting growth expectations for the Euro-economies in 2019 have been adjusted down also – average expectations at the November 2018 meeting was a growth rate of 1.8 per cent in 2019. The European sentiment indicator (ESI), see figure 1.2, continues to decline from 2018 levels and is currently in line with expectation by the AIECE institutes.

Investments are expected to fuel the economies in the Euro area somewhat – in 2019 growth expectations are 2.4 per cent, with some slowdown in 2020 (2.1 per cent growth). The outlook for private consumption, on the other hand, is more subdued – here growth in the Euro-area is expected to come in somewhat below the growth in total output, with the mean forecast at 1.2 per cent for 2019 and 1.3 per cent for 2020. Public consumption growth in the Euro-area is expected to be slightly higher, with a mean forecast of 1.6 per cent for 2019 and of 1.5 per cent for 2020

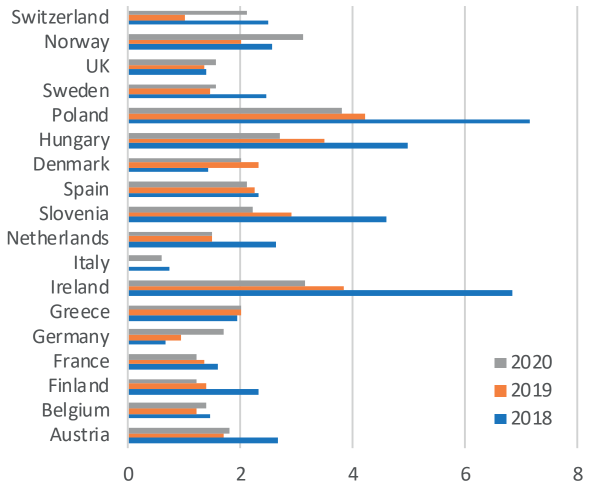
Regarding what drives GDP growth in the individual countries in the near future, increased domestic demand is clearly seen by the institutes as the most important factor, see figure 2.3 (19 respondents). Policy, both monetary and fiscal, are perceived to be of less importance in the near term, while increased global demand is seen as the second most important factor.

When the AIECE institutes were asked about the most important drivers of GDP growth in the Euro-area, se figure 2.4, the picture that emerged is more diverse. Increased domestic demand and monetary policy are ranked equally as to which factor is the most important (9 institutes chose each answer). Fiscal policy is expected to have greater importance (9 institutes give it a primary, or secondary, importance rank, compared with a single institute ranking it equally when asked about their own country).

Is there a pattern whereby countries that believe monetary policy is important for the Euro-area believe something different for their own country? Both Swedish institutes regard monetary policy as the most important driver of growth both in their own country, as well as in the Euro-area countries. Institutes that believe monetary

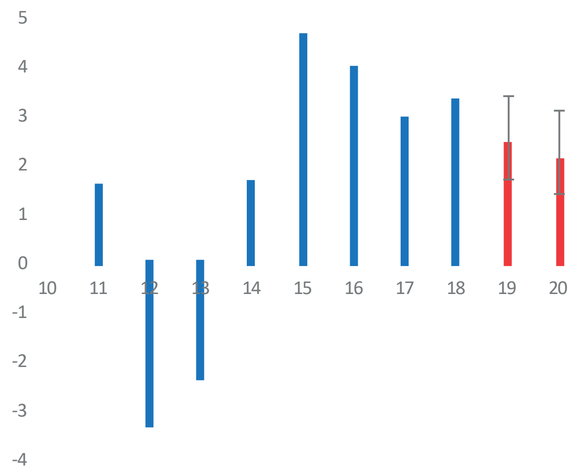
[2] GDP growth expectations at 1.4 per cent both for 2019 (24 respondent institutes) and 2020 (22 respondent institutes)

Figur 2.1: GDP growth in AIECE-economies



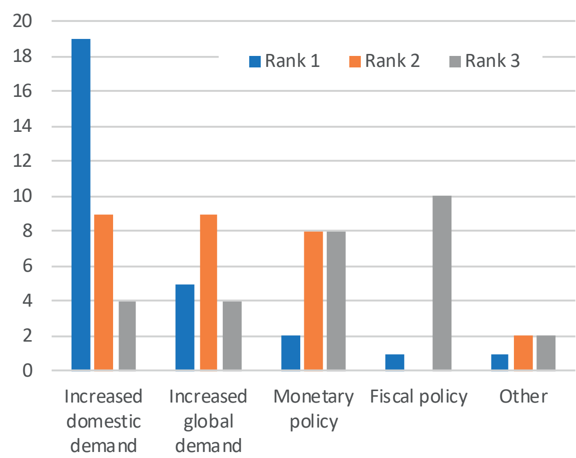
Source: Macrobond and AIECE institutes (n=16)

Figure 2.2: Gross fixed capital formation (Eurozone) per cent change, volume, Eurostat definition



Source: Macrobond and AIECE institutes (n=14 for 2018, n= 12 for 2019)

Figure 2.3: Most important factors according to their positive effect on economic growth up until 2020. Rank 1-3, 1=most important



Source: AIECE institutes (n=19))

policy is most important for growth in the Euro-area but not for their own domestic economy are from France, Italy, The Netherlands, Norway, Poland and Switzerland. On the other hand, some institutes (one each from France, Germany and Spain, respectively) regard monetary policy as a less important factor for growth in the Euro-area countries than in their own country (moves from rank 2 to rank 3). Altogether, therefore, the pattern between how important the institutes view monetary and other policy in the Euro-area countries and their own is somewhat mixed. Though it is hard to read any clear message from here, any divergence may reflect growing uncertainty about growth perspectives in the near future. Furthermore, various structural factors may weigh in here, for instance the level of exposure to common external risks such as more protectionist trade politics and Brexit related changes in trade patterns.

We have also asked the AIECE institutes about positive and negative factors affecting consumption in their country, see figure 2.5a. A striking result is that most institutes (20) expect labour market conditions to have the most positive effect on consumption (rank 1). Fiscal policy is also expected to have a clear positive effect, 27 institutes give these suggested options a top 3 rank. Only a small number of institutes give some significance to other options in raising consumption.

On the other hand, considering possible negative effects on consumption, the picture is very diverse. Various factors are expected to possibly have some negative influence on consumption. 12 institutes have worries about the saving rate affecting consumption negatively, while trade related shocks also concerns many institutes (10 in all with 5 having the issue as their rank 1 issue).

From the AIECE institutes answers to the question about which factors are limiting investment, it seems that external factors outside each country such as external demand and geopolitical risk are most important, while internal factors matter less, see figure 2.6.

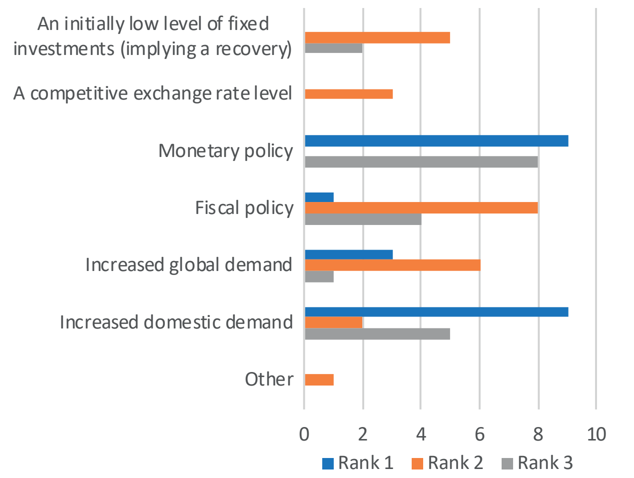
The AIECE institutes have ranked downside risks from 1 to 10, see figure 2.7. Counting the 3 highest ranks, three issues stand out as most prominent: increased protectionism and trade barriers worries 24 institutes while Brexit issues and slowdown in China and other emerging economies worries 15 institutes. There are also some worry about a possible re-emergence of the European debt crisis – which 11 institutes mention.

What are the main downside risks to the projections for your country in the coming two years? Please rank them from 1 to 10, where 1 is most important.

2.2 Labour Market

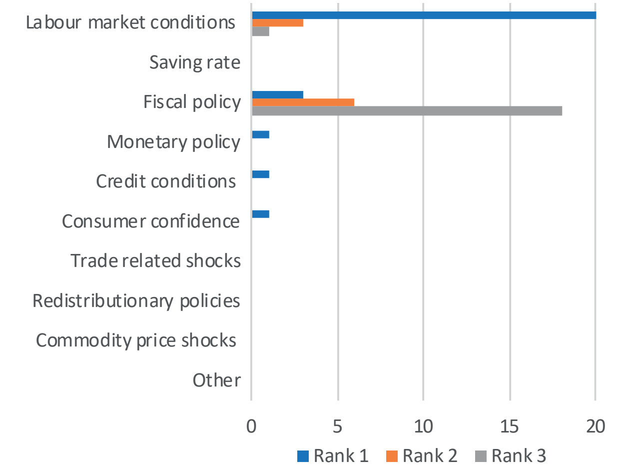
Unemployment in the Euro area is expected to continue its decline, but at a slower rate than previously, after it peaked in 2012/2013. The mean of the AIECE institutes' (11 respondents) prognosis is for an expected unemploy-

Figure 2.4: Most important factors according to their positive effect on growth in the euro area up until 2020. Rank 1-3, 1=most important



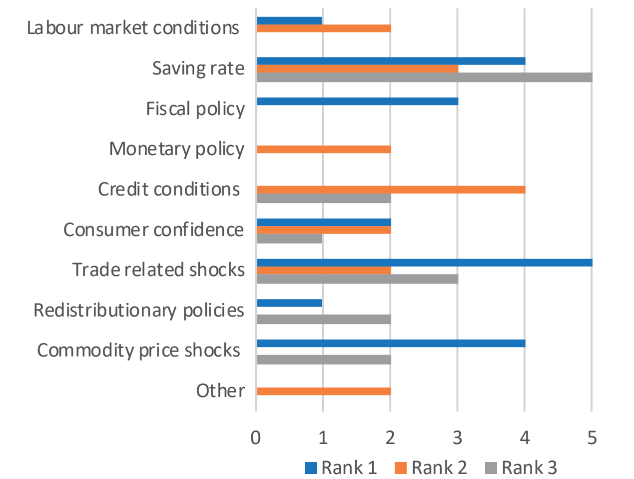
Source: AIECE insitutes (n=25)

Figure 2.5a: Most important factors according to their POSITIVE effect on private consumption up until 2020. 1-3. 1=most important



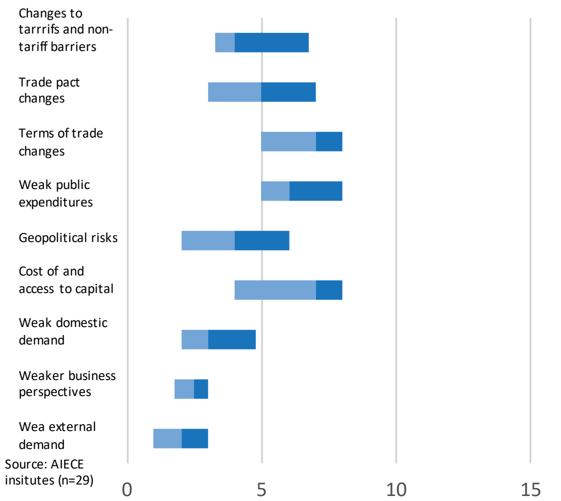
Source: AIECE institutes (n=25)

Figure 2.5b:Most important factors according to their NEGATIVE effect on private consumption up until 2020. 1-3. 1=most important



Source: AIECE institutes (n=17)

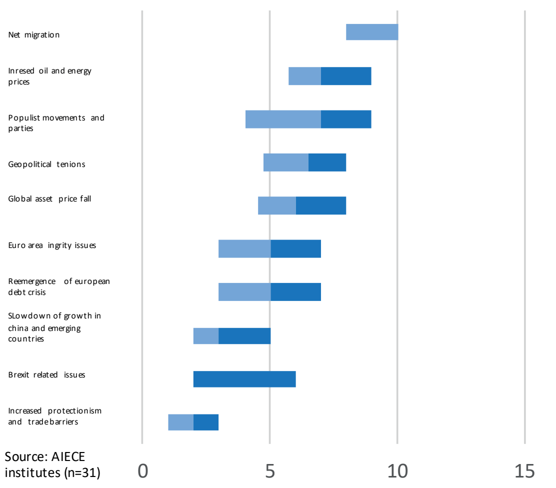
Figure 2.6: Most important factors limiting investment in your country within two years



For each factor the figure shows a boxplot with the 25%-quartile, the median and the 75%-quartile

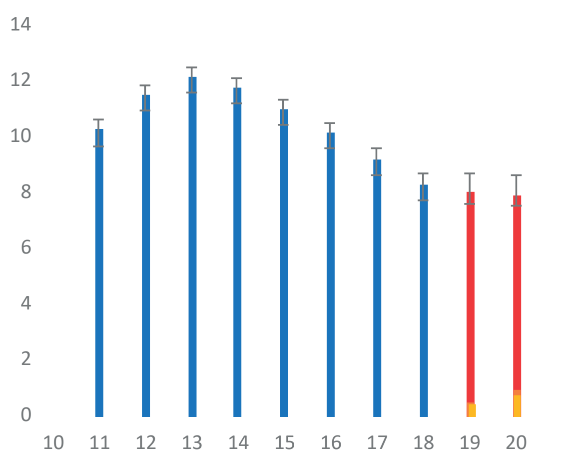
Source: AIECE insitutes (n=27)

Figure 2.7: Main downside risks for the projections for your country the coming two years



Source: AIECE institutes (n=29)

Figure 2.8: Unemployment rate (Eurozone) per cent of total labour force (Eurostat definition)



Source: Macrobond, AIECE institutes (n=11). Error bar indicate the upper and lower extremes of the institutes projections.

ment rate of 7.8 per cent in 2020. In the European Union as a whole the corresponding prognosis for 2020 is for an unemployment rate of 6.8 per cent. All responding institutes but one expect unemployment to continue declining from 2019 to 2020 (by 0.1 to 0.2 per centage points), while CEPREDE from Spain foresees an increase in EU unemployment from 2019 to 2020 by 0.6 per cent-age points.

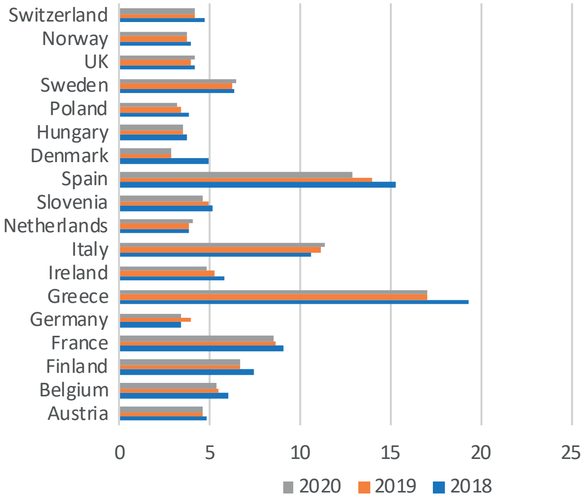
Although unemployment is currently at its lowest level since the finance crisis, comparing countries with high and low unemployment indicates that there may be opportunities for lower unemployment, at least in the somewhat longer run. Figure 2.16 (page 14) provides responses as to whether current domestic labour market policies are deemed appropriate by AIECE institutes. Institutes in several countries are in favour of more interventionist policies. France, Greece, Italy, Norway and Sweden belong to that group. Interestingly, both Nor-way, France and Sweden think that more effort should be expanded, although the unemployment levels are at or below the mean for the Euro-area in these countries. Another group of countries – Denmark, Finland, Ireland, The Netherlands, Poland, Spain and Switzerland – think that the effort to combat unemployment is appropriate. That may be understandable for most of the countries in that group which have unemployment levels below the Euro-zone average. But for Spain, with high unemploy-ment, it may seem surprising that the level is deemed acceptable. An explanation may be that the reduction in unemployment year-on-year has been fairly high re-cently, and a further reduction in unemployment may be perceived as prohibitively costly.

Involuntary part-time work in the Euro-area, see figure 2.10, is perceived as somewhat common (9 institutes) or common (7 institutes), while 1 French institute (BIPE) sees it as widespread and the Polish institute sees it as unusual. A possible interpretation of these answers is that there is an almost universal consensus among the institutes that involuntary part time work plays a signifi-cant role in the Euro-area labour market.

When asked about the extent of involuntary part-time work in their own country, a greater share of the insti-tutes describe it as somewhat common (16 of 26, 11 from the Euro Area) while 6 institutes (5 from the Euro area) describe it as common, see figure 2.11. Further-more, 2 institutes describe it as widespread (Greece and one Hungarian institute) while the same number de-scribes it as unusual (Ireland and one Belgian institute). An interesting point here is that the other Hungarian institute describes it as somewhat common.

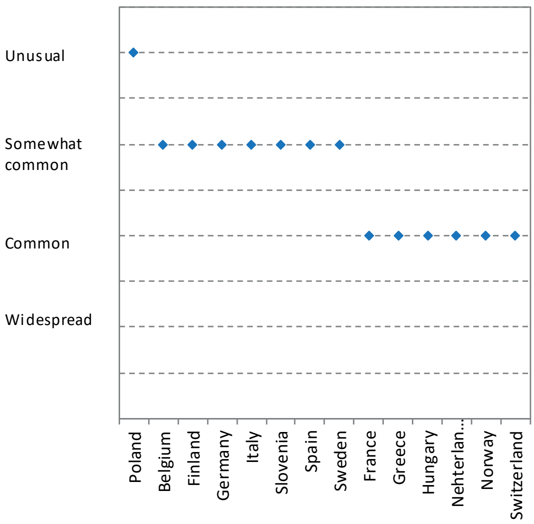
We have asked the AIECE institutes about their percep-tion of changes in employer-worker power structures in the European labour market as well in their national labour markets over the last decade, see Figure 2.12 and 2.13. Considering the European chart, most insti-tutes agree that employer power has been somewhat enhanced during the last decade, with a few outlier

Figure 2.9: Unemployement rate in AIECE countries



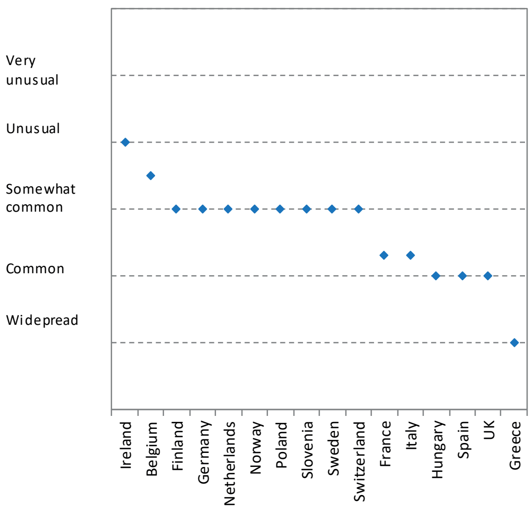
Source: Macrobonmd/ILO, AIECE institutes (n=16)

Figure 2.10: Perception of involuntary part time work in the euro area?



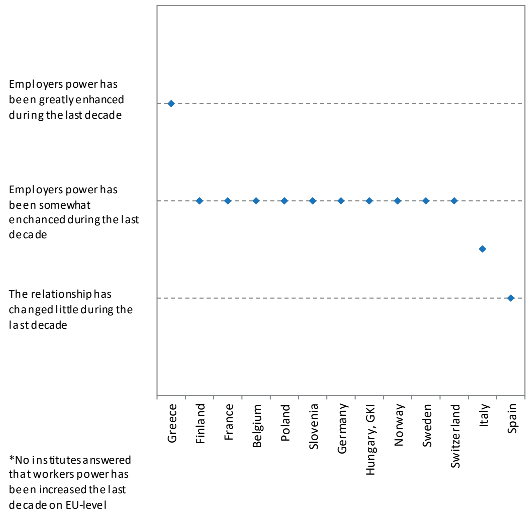
Source: AIECE institutes (n=18)

Figure 2.11: Perception of the extent of involuntary part time work in your country



Source: AIECE institutes (n=26)

Figure 2.12: Perception of employer-worker power structures in the European labour market?



Source: AIECE institutes (n=16)

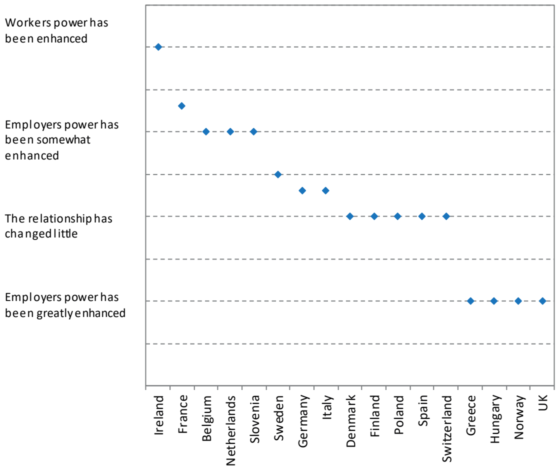
answers. Greece (KIPEDE) perspective is that the employers have had their power greatly enhanced, while Spain's (CEPREDE) perspective is that little has changed over the last decade.

Turning to the national labour markets, the picture is more diverse. Institutes from several countries report that employers have had their power greatly enhanced (Greece, Hungary, Norway and UK). In Ireland, however, the AIECE institute reports that workers have gained power over the last decade, while the majority of countries report that there has been little change or a shift in the power-structure benefitting employers.

Some structural features of the labour markets may correlate with the employer-worker power structures. Higher levels if temporary/zero-hours contracts (precarious jobs) and lower job security are factors that may correlate with enhanced employer power or correspondingly a reduction in worker power in the labour market.

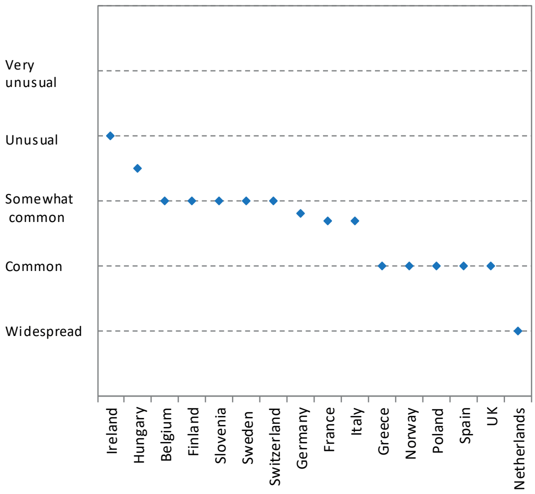
In figure 2.14 the extent of temporary/zero-hours contracts in each country is presented, while figure 2.15 shows the level of job security for workers in permanent full-time employment. Combining information for countries, we see that for instance the UK and Greece have seen power greatly enhanced by employers and concurrently an workers on temporary/zero-hours contracts is common while job security for those in permanent full time employment is low. At the other end of the spectrum the picture is more blurry, but Finnish workers have a high level of job security, modest levels of temporary/zero-hours contracts and has seen little change in employer-worker power structure.

Figure 2.13: Perception of employer-worker power structures in your country›s labour market?



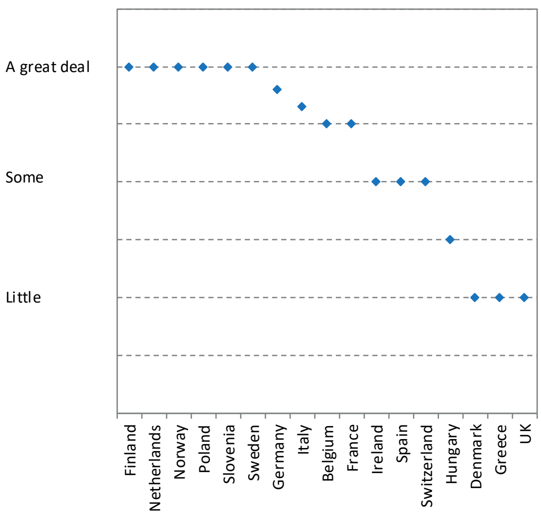
Source: AIECE institutes (n=26)

Figure 2.14: Perception of the extent of workers on temporary/zero hour contracts (precarious jobs) in your country



Source: AIECE institutes (n=26)

Figure 2.15: How much job security do workers in permanent full time employment enjoy in your country?



Source: AIECE institutes (n=27)

2.3 Inflation development

Last year – for the first time in years – inflation in the Euro-area was for a short while over 2 per cent, an event that caused some to ask if inflation now was back for good. However, in November later that year, inflation abruptly began to decline again, mainly consequence of lower energy prices and possibly lagged effects of a prior strengthening of the euro. Then, after having hovered around 1.4 per cent until March this year, inflation again suddenly started to pick up in April, to 1.7 per cent, an observation that contributed to nudge inflation towards the European Central Bank's target of below but close to 2 per cent. As with the previous occasion, variations in energy prices caused most of the movement, but a relatively sharp fall in service prices was also part of the culprit this time. The core HICP-rate, which strips out more volatile price changes for energy and fresh food and is arguably a better measure of underlying price pressures, also exceeded analysts' expectations in April, rising to 1.3 per cent from 1 per cent in March, the lowest level for two years.

There are, however other factors to consider, and it may be prudent to temper ones interpretations of the strong increase seen in Euro-area core inflation in April with caution. A late Easter contributed to abnormal price pressures, and the full picture is likely not available until at least the May data is available, to see whether core inflation reverts to the benign trend it has been on since the start of the year.

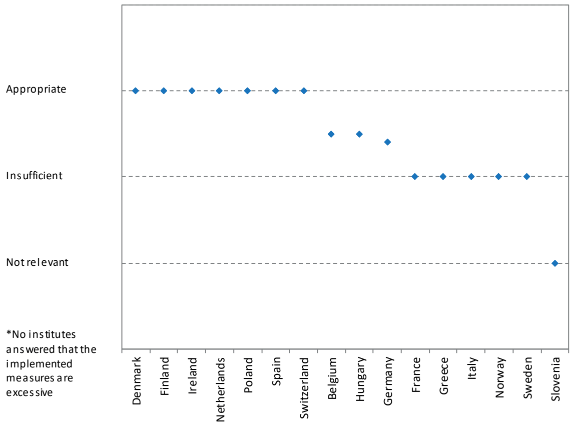
Admittedly, for some time a perceived further tightening of the labour market has been expected to push up wage growth. However, after having increased strongly in the second quarter of last year the ECB's indicator of negotiated wages has showed few signs of further increases. Of the institutes 18 foresees at least stable nominal wages in their country, while 5 institutes project a possible real wage decline.

AIECE member institutes expect inflation in the Euro-area and the EU to reach, respectively, 1.4 and 1.6 per cent this year and 1.6, and 1,8 per cent, respectively, in 2020. The variation between the lowest and the highest forecasts for 2019 and 2020 are noticeable. For the EU, 1.2 per cent is the lowest, 1.8 per cent, the highest levels in 2019, while the 2020 forecast vary between 1.5 and 2.1 per cent, thus maintaining the absolute difference between the lowest and highest estimates from the previous year. and illustrating the diverging viewpoints among the AIECE member institutes regarding the inflation outlook.

Between individual countries we observe substantial differences both in the level, and in the evolution, of price inflation. Inflation is expected to decrease between 2019 and 2020 in only in 2 countries (The Netherlands and Norway), while for all other countries (15 responding institutes) the forecast is for either constant or increasing inflation. Overall, according to the AIECE institutes, inflation will be higher than 2 per cent in 4 countries, both in 2019 and 2020, though the countries where this will be the case vary between the two time periods. Inflation in The Netherlands and Norway is expected to decline from above to under 2 per cent from 2019 to 2020, while the opposite is the case for Spain and the UK. As far as the level of inflation is concerned the country with the highest absolute numbers is Hungary where inflation is projected at just over 3 percent in both 2019 and 2020. On the other hand, it is in decreasing order projected to be lowest in Italy, Greece and Switzerland.

The somewhat more subdued inflation outlook by the AIECE member institutes, compared to the autumn report, could provide some rationale for a more lenient monetary policy on part of the European Central Bank. Whether the ECB, like the Swedish Central Bank, will reinitiate a program of quantitative easing is, however, at the time of writing still an open question.

Figure 2.16: The implemented measures to reduce unemployment in your country are...



Source: AIECE institutes (n=25)

Figure 2.17 : Indicator of negotiated Wages, EA 19, percentage change Y/Y

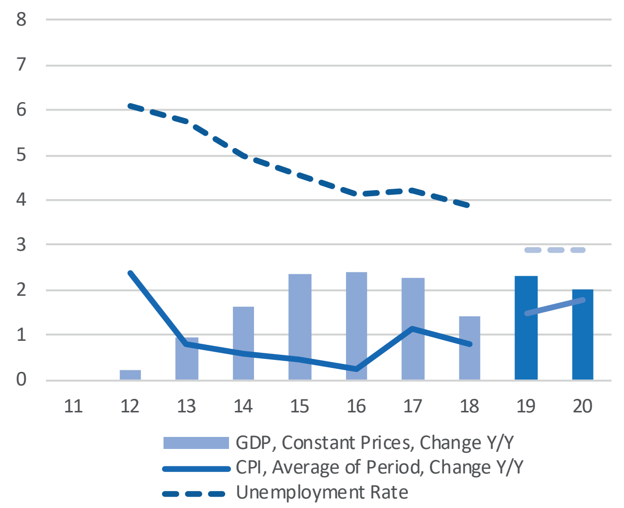
Source: ECB and Macrobond

Questions for Discussion

Euro Area:

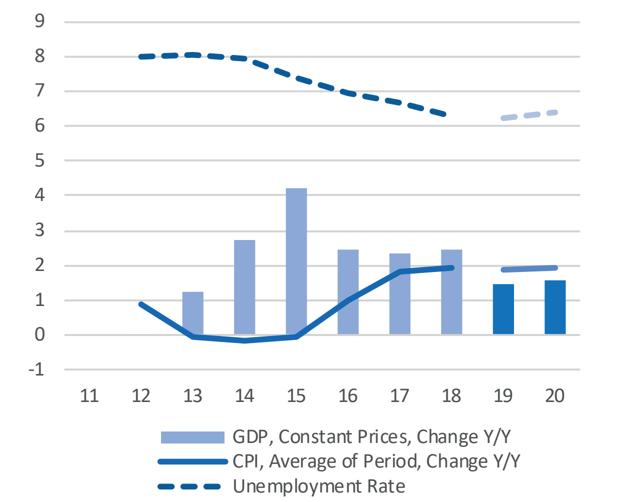
1. Why are both fiscal and monetary policy assumed to be of great importance for GDP growth in the Euro-area, while not that important for growth in the individual EU countries?
2. Climate politics is high on the agenda in many countries. Will strong policies to curb carbon emissions eventually lead to an economic downturn because of uncertainty and high energy/emission taxes? Or will massive investments and research in low emissions technologies lead to higher growth?
3. Will the coming election to the EU parliament have any/some effect on economic outcomes or will it business as usual thereafter?
4. If Great Britain leaves the EU – eventually – will that have any effect on the power balance in EU between countries and if so, what effects on EU economic politics can be expected?

Figure 2.18: Outlook for Denmark, Growth, consumer prices and unemployment



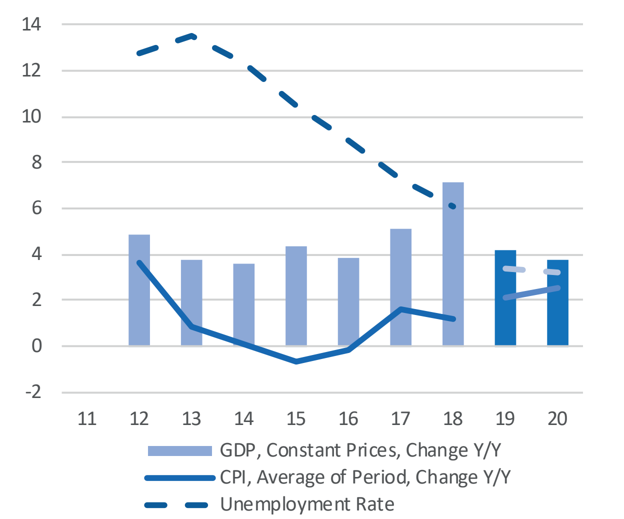
Source: Macrobond, AIECE-institutes

Figure 2.19: Outlook for Sweden, Growth, consumer prices and unemployment



Source: Macrobond, AIECE-institutes

Figure 2.20: Outlook for Poland, Growth, consumer prices and unemployment



Source: Macrobond, AIECE-institutes

2.4 Non-Euro Area Outlook

Denmark

The Danish economy has experienced high growth rates of over 2 per cent the last three years, and GDP is projected to grow by around 2 per cent also in the coming years. The relatively high growth in demand implies increased pressure on the economy's resources in the coming years. However, the increase in employment is supported by expansions in the structural workforce, particularly as a consequence of increases in retirement ages. The increase in employment and the pressure on the labour market are projected to lead to higher wage growth. This will dampen export growth and, thereby, contribute to a gradual normalisation of the economic situation.

Sweden

The Swedish economy is still booming but has peaked and entered a slowdown phase, mostly driven by slower investment in the housing sector (lower number of housing starts this year and 2020) but also by lower internal and external demand. The previously strong investment climate has meant that investment is now at high levels in parts of the business sector. Together with the recent deterioration in business confidence, considerable shortages of labour with the required skills and a continued decline in housing investment, this means that business investment will fall back slightly this year. The labour market is still strong, but is also going through a weaker phase, though with a lag, compared to the GDP growth. Hence, unemployment is assumed to bottom out this year at 6.3 per cent before rising slightly next year, but resource utilisation in the labour market will still be higher than normal. Despite the strong labour market, wage growth will be moderate. Inflation will be below 2 per cent both this year and the next. Accordingly, the central bank is expected to wait with the increase of the repo rate and has also recently announced the start-up of a new bond buying program, with the relatively low inflation outcomes the first two months this year in mind. Productivity growth is slowing down.

Poland

After the previous year's 5 per cent GDP hike, the Polish economy will experience a slight slowdown in 2019 and 2020 due to deteriorating external demand and a rather sluggish investment climate prevailing in private sector. Consumption will be stimulated by a fiscal package of 2 per cent of the size of the GDP containing social expenditures directed to families with children and to retirees, but some personal income tax cuts as well. The fiscal position should not worsen in the forecast horizon thanks to improved tax collection and one-off revenues connected with reforms in the pension system and proceeds from sales of greenhouse gas emission allowances and fees for frequency reservations in the 3.7 GHz, 26 GHz and 800 MHz bands. At the beginning of the year inflation picked up. We expect that it will cross 2 per cent at the second half of 2019. However, next year it should not exceed the 2,5 per cent inflation target. If these circumstances prevail, monetary policy will remain inactive.

Risks are primarily located in the labour market and in the external environment. Though incoming workers from Ukraine significantly increase labor supply, already apparent wage pressure may continue. Also, economic growth of the Eurozone may turn out to be slower, hand in hand with the uncertainty associated with the potential negative effects on international trade of increased protectionism in US trade policy and the expected slower growth rate in China and the US.

Hungary

Hungary's GDP expanded by 5.1 per cent in the second half of 2018 year-on-year and by 4.9 per cent in 2018. These high growth rates have been unprecedented for 15 years, but are expected to slow down considerably in 2019 and especially 2020. Economic growth has been driven by domestic demand for three consecutive years, while the contribution from EU transfers to growth has moderated significantly recently, the latter being a tendency that is assumed to continue in 2019 and 2020 and which eventually will cause a slowdown in investment growth. Finallly, the external economic conditions are becoming harsher, as the plummeting German and French manufacturing PMIs recently demonstrated. Hence – while 2019 may see a slight rebound in export – by 2020 export will decelerate again, constraining growth prospects. Due to vigorous domestic demand, the foreign trade surplus is projected to decrease further, as a result of which the current account surplus, too, is likely to diminish. The pro-cyclical nature of Hungary's economic policy (including both fiscal and monetary policy) is easing rather than disappearing. Nevertheless, Hungary's external financing capacity remains sound even by international standards.

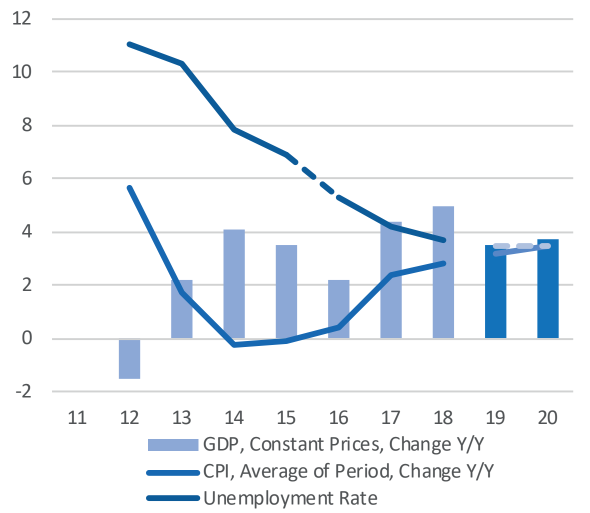
The labour market is tight and labour shortage is significant. However, the very fast wage growth of 2017-2018 is coming to an end since a) the government no longer enhances steep wage growth by drastic minimum wage raises and with large public-sector wage raises and b) many domestically owned smaller companies will have growing difficulties in raising wages, despite the still acute shortage. Inflation which has been picking up in part due to the sharp increase of wages is therefore assumed to subside.

All in all, due to the higher than formerly expected GDP growth rate and the stimulation measures of the government, such as the family protection action plan, GKI has chosen to raise its growth forecast for 2019 to 3.5 per cent despite a deteriorating global outlook. Its projection for 2020 implies a further deceleration of growth to 2.7 per cent.

U.K.

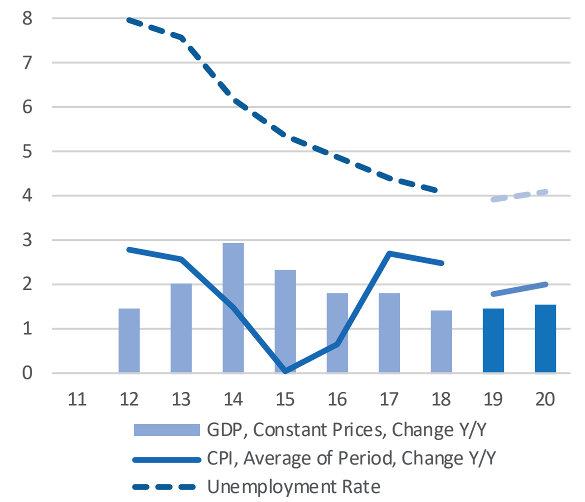
The UK's future relationship with the European Union remains undecided. Brexit-related uncertainty has led to investment plans being deferred and increased stock-building. Under our main-case forecast, based on a 'soft' Brexit and continuing uncertainty, GDP growth continues at around 1½ per cent in 2019 and 2020, broadly in line with potential output growth, and the unemployment rate stays at around 4 per cent. CPI inflation is forecast to remain around 2 per cent per annum as faster unit labour cost growth is offset by slower import price inflation. With inflation stable at target, and only limited evidence of domestic inflationary pressure, Bank Rate remains at 0.75 per cent throughout this year before being raised to 1 per cent in the second half of 2020. We expect public spending to rise more quickly than currently planned. That, together with the forthcoming reclassification of student loans in the public finances, is likely to mean that the government's medium-term fiscal objectives will not be met. The current account deficit is forecast to fall from 4.2 per cent of GDP in 2019 to around 3 per cent in 2020, as domestic saving picks up relative to investment.

Figure 2.21: Outlook for Hungary, Growth, consumer prices and unemployment



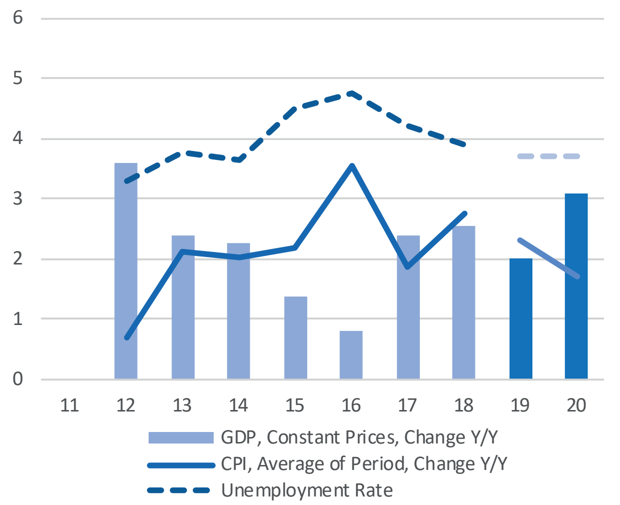
Source: Macrobond, AIECE-institutes

Figure 2.22: Outlook for the UK, Growth, consumer prices and unemployment



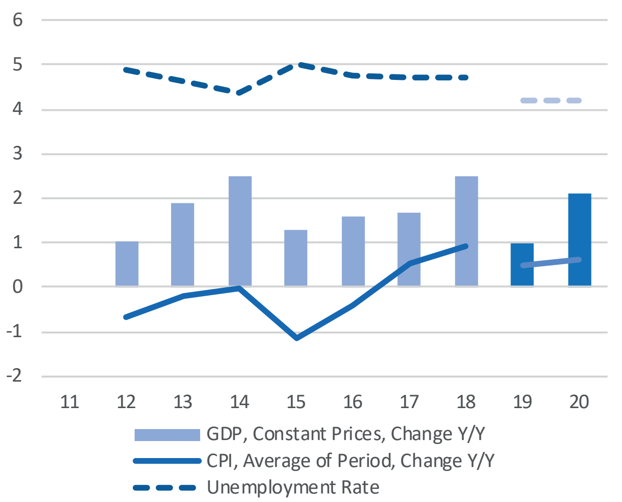
Source: Macrobond, AIECE-institutes

Figure 2.23: Outlook for Norway, Growth, consumer prices and unemployment



Source: Macrobond, AIECE-institutes

Figure 2.24: Outlook for Switzerland, Growth, consumer prices and unemployment



Source: Macrobond, AIECE-institutes

Norway

The Norwegian economy is in a moderate cyclical upturn, following a shallow cyclical trough around year-end 2016/17 as a consequence of an extended period of sub-par growth due to a precipitous fall in petroleum investments in late 2013 onwards. Much of the upturn we have seen so far has been supported by a combination of expansionary fiscal policy, low interest rates, a weak krone exchange rate and wage moderation. However, fiscal policy has become more neutral through 2018 and wage growth has lately shown signs of picking up. Together with a central bank that has raised its policy rate for the first time in more than two years, this indicates that these forces appear less likely to aid growth in the years ahead. The picture for petroleum investment, on the other hand, is the opposite, and pronounced growth is expected in 2019. On balance the Norwegian economy appears likely to be virtually cyclically neutral for the whole period up to 2022.

Switzerland

The forecast for Swiss GDP growth is 2.6 per cent this year, 1.6 per cent for 2019 and 2.1 per cent for 2020 − after moderate headline GDP growth of 1.6 per cent in 2017. The quarter-on-quarter figures reveal that the Swiss economy has passed its peak in the growth cycle which, according to the provisional Swiss GDP data, was during the first quarter of 2018. The same statistics recently delivered a surprise, showing that third quarter GDP growth was negative. Whilst this does not stand in complete contrast to the broader picture from the international economy or the current indicators for Switzerland, we consider this sharp decline in growth to be an outlier. Our forecast suggests that we will see a rebound in the fourth quarter; after that, growth rates will weaken somewhat, before returning to around potential.

Questions for Discussion

Non-Euro Area:

1. Will possible obstacles to trade through more protectionism politics from the US and others harm Non-Euro countries more than Euro countries and what may be the likely policy response?
2. If there is sudden economic downturn in the world, on a scale comparable with the financial crises of 2008, what is the expected policy response in your country? Does this differ from what you see as the most suitable response?
3. Low interest rate politics in many countries has lasted for many years now - are these economies trapped in a low interest and low inflation equilibrium environment?
4. Will EU policy responses towards Eastern European member countries who are 'bad' and flout common norms and rules hamper or assist economic growth in these countries?

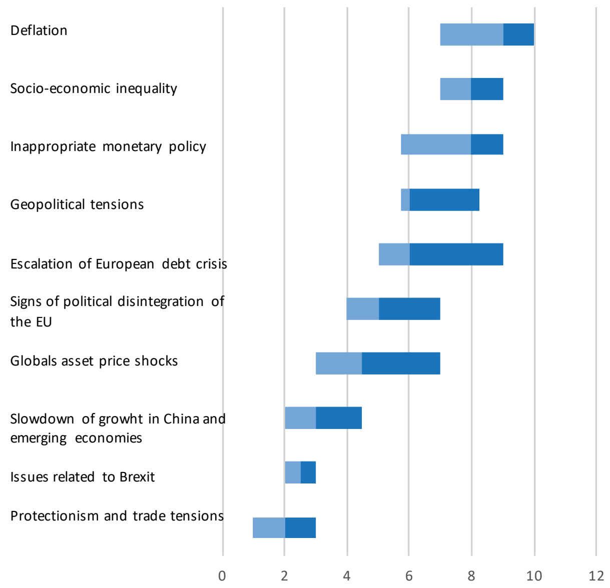
2.6 Risks to the outlook

When we asked the AIECE institutes to rank 10 possible risks to the economic outlook up to 2020, the patterns revealed are quite instructive. The institutes are supremely not worried about deflation, giving it a median rank of 8.5, on a scale running from 1 (most important) to 10 (least important). Second from the bottom in terms of importance are inappropriate monetary policy and inequality – both with a median value of 8, but where the spread is greater for monetary policy responses. Geopolitical tensions and escalation of the European debt crisis both receive a median rank of 6, with greater spread in the debt crisis rankings. Two somewhat linked issues of disintegration of the EU and global asset price shocks both receive median rankings just under 5, with fairly varied responses to both.

As to which risks the institutes are universally worried about, a slowdown in China and other emerging economies receives a median rank of 3, while Brexit related issues are not only seen as important by most institutes, the spread between the 25th and 75th percentile ranking is tighter than for any other risk, running between rank 2 and 3. The greatest received risk to growth in the period to 2020 is seen as coming from possible protectionism and further trade tensions, given a median rank of 2 by the responding institutes.

It should be stressed that the time frame considered, the next one and half years, necessitates one focus only on issues with the potential to cause upsets almost immediately. Socio-economic inequality for example, may be - and be perceived as too - a much greater risk to medium and long run projections, but the institutes were here asked to consider what was likely to do harm in a time frame of less than 18 months.

Figure 2.25: Main Risks to the Outlook



Source: AIECE institutes (n=23)

3. Policy Environment

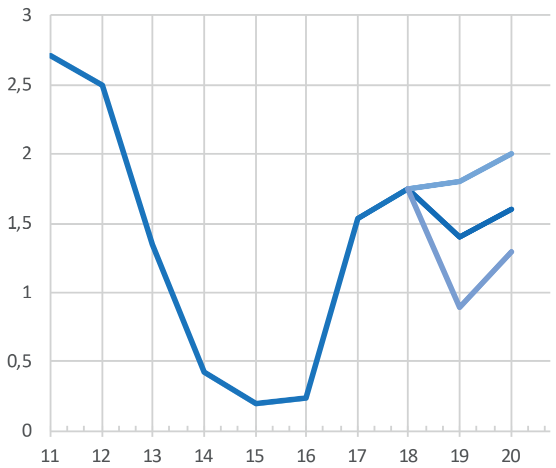
"We clearly have a political framework in Europe that has not delivered what the people expect; not the growth, the employment nor the income that people in many countries want." European Central Bank (ECB) in a recent interview[3].

The ECB represents the somewhat technocratic implementation of monetary policy in the Euro-area, within politically determined stable guidelines, serving current orthodoxy prioritising targeting low and stable inflation. Concurrently individual Euro-area members set fiscal policy primarily at the national level, within the confines of the of the Stability and Growth Pact[4] (SGP) enhanced by the Fiscal Compact[5]. With existing debt levels exceeding 60 per cent for 15 of the 28 EU countries (2017), these countries need to run a an even tighter fiscal policy than the other 12 (the UK has a treaty exemption). Recent research highlights the limited possibilities for fiscal stimuli. Interestingly, the responding institutes are split down the middle as to whether the relative roles of fiscal and monetary policy are ideal. Given the limited possibilities for fiscal policy and the extraordinary current monetary policy this seems to suggest half the institutes believe in a very neo-classical view of economics, with very little role for (Keynesian) demand management.

"In the short to medium term, space should be created for national fiscal policies to play a more active role in stabilising economies, especially when the effectiveness of monetary policy in this respect is questionable." Concludes ETUI 2019[6].

If one looks at inflation, current policy seems to be falling short. Currently the Harmonised Index of Consumer Prices (HICP) measure of inflation for the Euro Area shows prices rising at 1.4 per cent annually, while the same index excluding energy and unprocessed food is rising at 1.0 per cent[7]. Furthermore, the ECB March Staff Macroeconomic Projections foresee "annual HICP inflation at 1.2 per cent in 2019, 1.5 per cent in 2020 and 1.6 per cent in 2021." Especially for 2019 this is a substantial downward revision as compared with the outlook 3 months earlier, in December 2018. Of the 18 AIECE institutes that have reported HICP inflation forecasts for the Euro area for 2019, the average (mean & median) is slightly higher than the ECB, at 1.4 per cent. For 2020 16 institutes have

Figure 3.1: HICP (Eurozone) percentage change



Source: Macrobond, AIECE institutes (n=18 for 2018, n=16 for 2019). Error bands indicate the upper and lower extremes of the institutes› projections.

reported forecasts, with a median answer of 1.5 per cent and a mean of 1.6 per cent. When looking at responses by country, not institute, the mean response is 1.5 per cent, identical to the ECB forecast. This downward revision is linked to a substantially less positive forecast for Euro-area GDP, with the ECB March 2019 forecast down from 1.7 per cent to 1.1 per cent as compared with 3-months earlier, while the 2020 and 2021 GDP-forecasts are down 0.1 per cent and unchanged, respectively. The 14 AIECE institutes reporting forecasts for Euro-area GDP average at 1.5 per cent for 2019 (mean and median), and 1.6 per cent for 2020 (again, mean and median). While the latter figure is identical to the ECB forecast, the 2019 growth forecast is 0.4 per centage points or 36 per cent higher. However, for unemployment, the average AIECE forecasts and the ECB ones are identical, when the instates responses are weighted by country.

This shared prognosis for the Unemployment rate in 2019 and 2020 is 7.9 per cent and 7.7 per cent, respectively, with a lower GDP showing up with a lag. Compared with 3 months earlier, the 2019 and 2020 ECB figures are up 0.1 and 0.2 percent, respectively, while the 2021 forecast for the Unemployment rate is up 0.4 per cent, to 7.5 per cent, the latter a forecast the AIECE institutes were not asked for.

As of the end of March the ECB sees inflation remaining below its target, at 1.6 per cent, until 2021, the bank argues convergence toward its target *"has been delayed rather than derailed"* [8]

Institute Questionnaire Responses:

Labour market policy showed interesting commonalities, all responding institutes reported permanent full-time workers enjoying either a great deal (15 of 26), some (8 of 26) or little (3 of 26) job security, while no institutes re-

[3] Interview with Frankfurter Allgemeine Zeitung, Interview with Benoît Cœuré, Member of the Executive Board of the European Central Bank (ECB), published on 23 April 2019.

[4] The Stability and Growth Pact reform of March 2005 introduced country-specific minimum Medium-Term Budgetary Objectives (MTO) augmenting rules related to convergence with the initial Debt-to-GDP ratio target of 60 per cent, and the Budget deficit limit of 3 per cent. Achieving a positive cyclically-adjusted balance net of one offs and temporary measures was codified.

[5] Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) 2012.

[6] Benchmarking Working Europe 2019, The European Trade Union Institute (ETUI), Page 23.

[7] As of March 2019, source ECB Staff Macroeconomics Projections.

[8] Speech by Mario Draghi, President of the ECB, at the conference 'The ECB and Its Watchers XX', Frankfurt am Main, 27 March 2019, text available ecb.europa.eu

ported very little/none. Furthermore, almost all institutes reported the extent of temporary / zero-hour contracts to be quantitatively important. Either this was reported as common (9 of 25), or somewhat common (11 of 25), while only 16 per cent (4 of 25) of institutes perceived this to be unusual. This flexibility in hiring decisions would does not seem to result in efficient matching in labour markets, all institutes reporting their economies either very affected (9 of 27) or somewhat affected (18 of 27) by skill mismatches / shortages of appropriate labour.

Of 26 responding institutes, 17 reason that increased domestic demand will be the mainstay of economic growth this year and next – in line with the previous AIECE report in November 2018, where future domestic demand also was projected as important. As to whether the mix between fiscal and monetary policy is appropriate the institutes are quite evenly divided between yes and no/overweight for one or the other (11:10 yes vs no/ overweight one), while their stance is 2:1 policy is too heavily reliant on monetary policy vs too heavily reliant on fiscal policy.

3.1 Monetary Policy

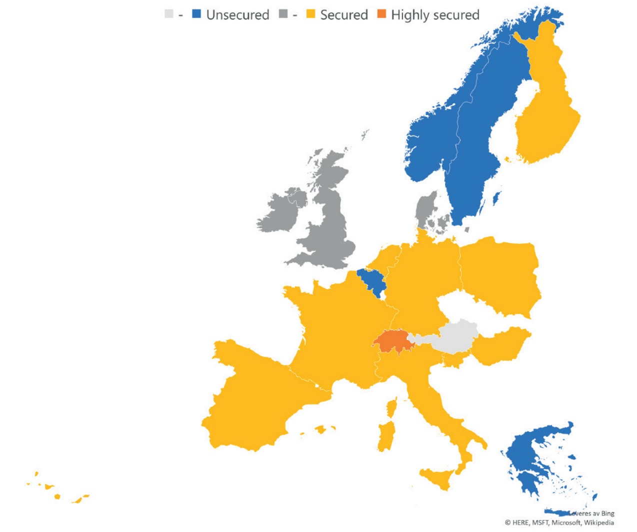
For the last 3 years, since the 16th March 2016, the ECBs Main Refinancing Operation has had a rate of 0.00, while the overnight borrowing and deposit facilities for Banks have been slightly above and below (0.25per cent and -0.40per cent respectively). This expansionary policy, with a slight 'tax' on bank deposits with the central bank, is forecast to remain for some time, though the negative rate on deposits is under review. The ECB wound up its asset purchase programme in December 2018 (though it is rolling over expiring assets), but when asked the AIECE-institutes are evenly split (10:10 yes vs unlikely) about its reintroduction. However, of the 10 that think it will be reintroduced 7 are uncertain as to the time frame, while 3 think it will happen within 12 months.

As to the likely consequences of further Quantitive Easing (QE) programmes by the ECB every responding institute (16) regards slump postponement as the most, or second-most, likely consequence. Furthermore, almost half (7 of 16) see a consequent build-up of further financial imbalances as most, or second-most, likely. The rest, except two institutes, rate this as third most likely. The underlying reasoning of the responding institutes would seem rather heterodox, in a Modern Monetary Theory (MMT) world, one might expect to see a first-round increase in real investments from either more, or less costly, money. However, only 38 per cent (6 of 16) institutes saw this as second, or third, most likely, with no institute rating it a most likely consequence.

Recent academic work[9] published by the Dutch Central Bank (De Nederlandsche Bank) on the distributional

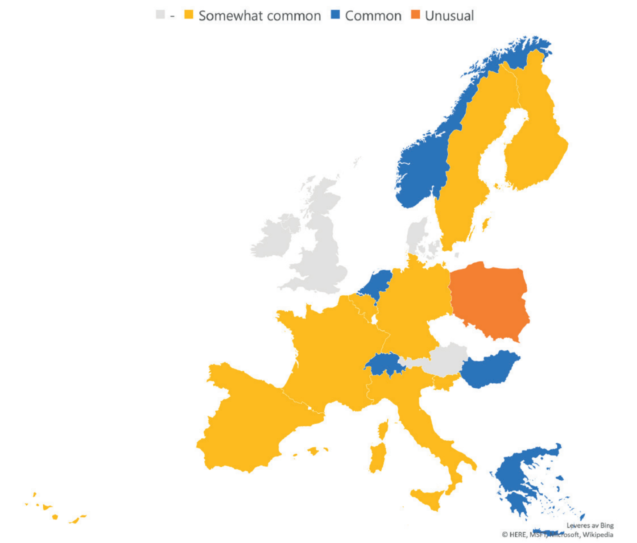
[9] Monetary policy and the top one percent: Evidence from a century of modern economic history By Mehdi El Herradi and Aurélien Leroy, April 2019, De Nederlandsche Bank.

Figure 3.2: Perception of overall labour security in the euro area



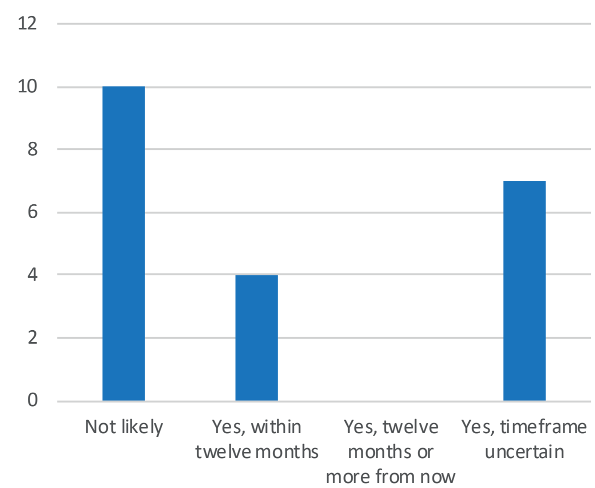
Source: Source: AIECE institutes (n=19)

Figure 3.3: Perception of involuntary part time work in the euro area?



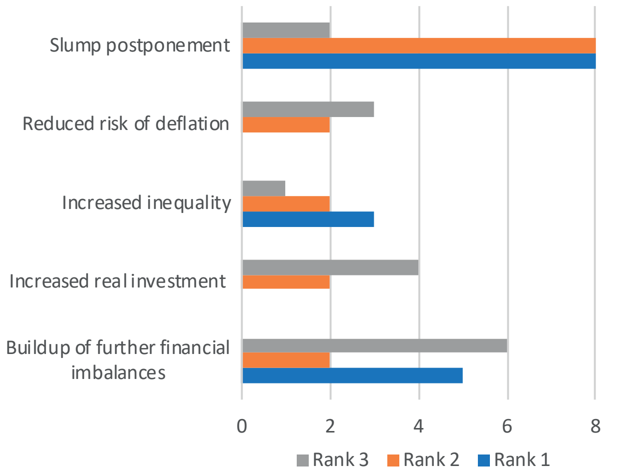
Source: (n=18)

Figure: 3.4: Will the ECB reintroduce QE-programs, and if so when?



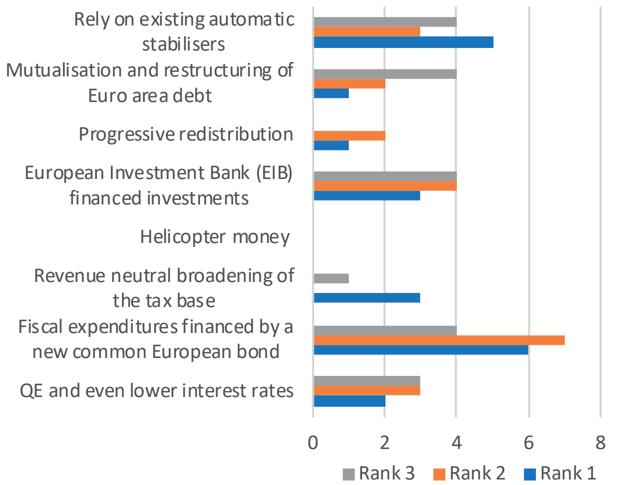
Source: AIECE institutes (n=20)

Figure 3.5: Likely consequences of reintroducing QE-programs? Rank from 1 to 6, 1=most likely



Source: AIECE institutes (n=24):

Figure 3.6: In the next significant economic downturn what would be an appropriate (but not necessarily feasable) response for the euro area? Please choose three, 1=most important



Source: AIECE institutes (n=25):

effects of the monetary policy in the medium to long term, looking at advanced Economies from 1920 to 2015, highlights how research considering only the short run effects of monetary policy do not capture significant contributions to income inequality, as these typically, require longer run data to identify. Their overall finding is that:

"... loose monetary conditions strongly increase the top one percent's income and vice versa."

Furthermore,

"Our findings also suggest that this effect is arguably driven by higher asset prices, and holds irrespective of the state of the economy."

Returning to the AIECE institute responses, when asked what would be an appropriate, but not necessarily feasible response for the Euro-area in the next significant downturn the option rated as most important by a majority of institutes is Fiscal expenditures financed by a new common European bond (6 of 17). Even more strikingly, 100 per cent of responding institutes (17 of 17) rate this new type of European bond as one of the three most important responses for dealing with the next significant downturn in an appropriate manner. Especially considering the seemingly heterodox economic thinking prevalent at many of the institutes revealed through other responses, this unequivocal agreement that a common risk-sharing solution is required is quite striking. Furthermore, 65 per cent (11 of 17) of institutes rate European Investment Bank (EIB) financed investments as of either primary, secondary or tertiary importance as crisis responses. This EU institution issues its own bonds to finance EU wide (and beyond to its neighbours) investments in accordance with politically determined criteria. Arguably as interesting still is what is barely there. Only 24 per cent (4 of 17) institutes rate revenue neutral broadening of the tax base as of either primary, secondary or tertiary importance, a single institute more than the number prioritising progressive redistribution (3 of 17) in the same way.

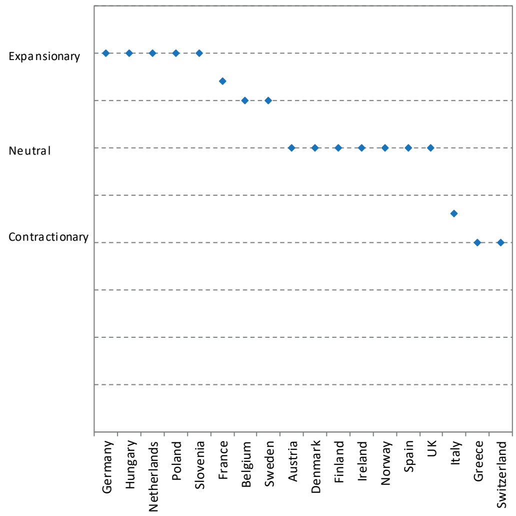
3.2 Fiscal Policy

When asked their perspectives on the expected stance of fiscal policy in their countries the majority (15 of 27) of the institutes expect an expansionary fiscal policy, while less than half of these (7 of 26) view expansionary fiscal policy as appropriate. A large majority of institutes (18 of 26) think a neutral fiscal policy would be appropriate, while again, less than half of these (7 of 26) expect a neutral fiscal policy. Whether or not a tighter fiscal policy would be prudent or increase the risk of deflation, the institutes are somewhat pessimistic about its implementation, while little in doubt of its efficacy. (confer Wall Street maxim 'Often wrong, seldom in doubt'?)

On a linked issue a slight minority of institutes evaluate measures to stabilise public debt as insufficient (12 of 26), while one less (11 of 26) view current and planned measures as appropriate, while only 12 per cent (3 of 26) consider these excessive. A prevailing view seems to be that the possibilities for expansionary fiscal policy are limited by previous debt accumulation, and debt reduction is primary. This stands in stark contrast to Modern Monetary Theory (MMT) school of thought. Especially in light of the massive monetary stimuli that have taken place in Europe in the last decade without triggering inflationary pressures (an interesting issue its own right discussed in another part related to labour markets), it would seem that heterodox theories of money no longer match reality particularly well.

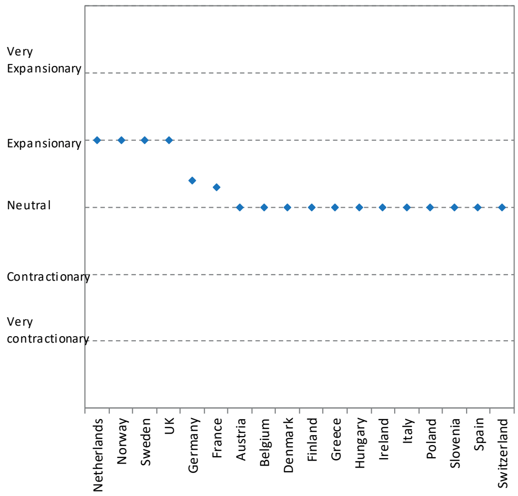
Furthermore, when asked for their view of ideal policy in their country in the next significant downturn, 43 per cent (9 of 21) of institutes thought relying on existing fiscal stabilisers most important, with fiscal expenditures a close second chosen by 33 per cent of institutes. A wide array of initiatives was chosen by the remaining institutes as most important; progressive redistribution, debt restructuring and revenue neutral broadening of the tax base, additionally QE and even lower interest rates were also viewed as most important by at least one institute each.

Figure 3.7 : Expected Fiscal policy stance in your country to the end 2020



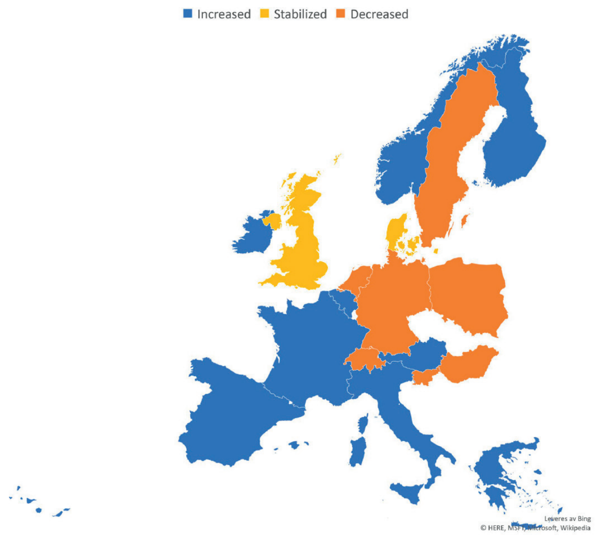
Source: AIECE institutes (n=29)

Figure 3.8 : Suitabel fiscal policy stance in your country to the end of 2020



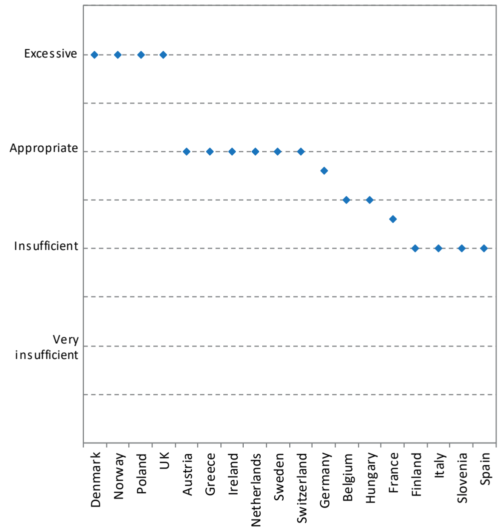
Source: AIECE institutes (n=29)

Figure 3.9: How has the level of public debt progressed in your country since the Financial crisis of 2008?



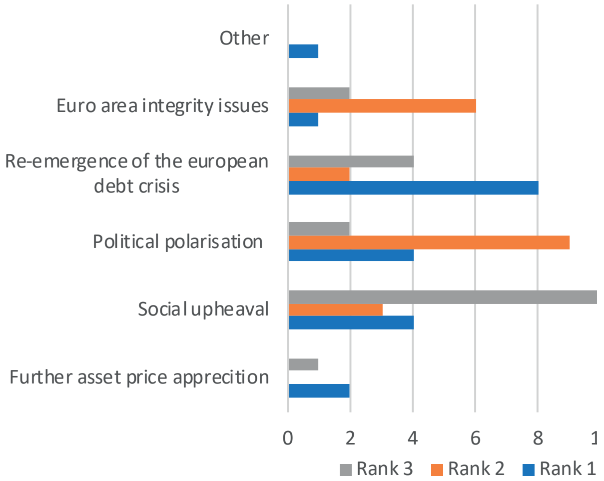
Source: AIECE institutes (n=28).

Figure 3.10: Description of current and planned measures to stabilise, Public debt



Source: AIECE institutes (n=28)

Figure 3.11: Consequence of not dealing with issues appropriately (individual country)



Source: AIECE institutes (n=26)

Questions for discussion:

1. The pass-through mechanism ('trickle down Economics') to wages is broken. It always was. Discuss.

2. Inflation targeting has channelled the excess liquidity created by unprecedently loose monetary policy into asset prices benefitting politically influential insiders, not the (shrinking) middle class. Discuss, and consider whether the policy is doomed, salvageable or doing just fine?

3. In 1972 the wage share in the EU-15[1] was 72 per cent. In 2015 the wage share for the EU-28 had risen to 63 per cent after declining below 62 per cent in the financial crisis. Discuss whether labour's loss of almost 10 per cent of total Income is sustainable.

Irish Whiskey vs Scottish Whisky – suggested evening discussion topic

4. According to ETUI the somewhat stable aggregate Wage Share development in the EU in the last decade from 2009 to 2018, masks wide dispersion within. Ireland has seen a decline by 38 per cent, while at the other end of the scale it has risen by 28 per cent in Bulgaria. These trends mask the increasing uncertainty facing European workers, from a combination of increased supply of labour (China's entry into WTO) and technological change (increased automation/ capital augmenting technical progress and job churn). Possible questions to consider:

   A. Which decade, and part of the world, would you rather be born in from 1950-9 to 2020-9?

   B. Do you think your children's generation will have a better, equal, or worse life than your generation?

   C. Which is the greatest threat in your country, climate change or inequality?

[1] Wages in percentage of GDP at factor costs, source AMECO Database autumn 2018.

4 Risks, Challenges and Economic Policy

"May you live in interesting times", sometimes referred to as the Chinese curse due to its purported, but probably wrong, origin seems as compelling as any moniker for 2019, a year of unravelling and choices. The saga of Brexit seems likely to result in the United Kingdom leaving the European Union in October, with supplementary risks for the integrity of the UK itself, also a union, albeit of 4 countries, not 28. The European Parliamentary election[10] will take place in May and trade negations with the United States continue after a directive in April authorised the European Commission to start talks.

Furthermore, European countries face underlying challenges of a more structural character. The transition to a more sustainable growth model necessitates internalising further externalities of economic activity in general, and carbon release in particular. For advanced economies with already stagnant rates of growth, both of total GDP and GDP per capita, the distributional effects may be more visible than in economies growing more rapidly. Protests in France seem to an outsider linked to fundamental differences in how urban and extra-urban ways of life are affected by climate challenges, and by the policies implemented to alleviate the effects of these. Especially rising income inequality, but also unemployment, underemployment and precarious jobs[11] are symptomatic of the current state of many labour markets in Europe and have implications for the real incidence of (green) taxes and policy changes – who is likely to effectively pay through lost real income or leisure for any adjustments. The relatively weak bargaining position of employees is a finding of both academic studies and reports by multinational organisations. A recent OECD report[12] finds that:

"Employment is rising in OECD countries, but most jobs continue to be created in relatively low-productivity, low-wage activities"

Academic work has sought to quantify "Alternative work arrangements", Katz and Krueger 2016[13] looked at the US economy finding the quantitative importance of precarious jobs in the economy (around 1/6th) understates the magnitude of the effect, as they find over 90 per cent of job creation from 2005 to 2015 was linked to non-traditional jobs. While the details of that study, which arguably equates a 'side-hustle' in addition to a traditional job with being reliant on 'the gig economy', can be discussed there is little doubt about the overall trend towards less safe full-time jobs and the transfer of various forms of risks, from companies and employers to citizens and workers. The decline in defined benefit pensions system coverage, typically replaced by less well funded defined contribution pension accounts across sectors and economies will only be truly felt in full when the retired population is living off these reduced incomes, and as longevity risk has also been transferred, living off these reduced absolute incomes reduced further by increases in life expectancy. Compensating by working longer for individuals will only be possible if employers find elderly workers attractive to employ.

Against this background of macro-trends, we have asked AIECE-institutes for their assessment of the risks related to important 2019-events, underlying structural challenges for Europe, and also for an assessment of current and suitable economic policies to mitigate these challenges.

4.1 Slowdown of growth and weak inflationary prospects.

When asked about downside risks to their macroeconomic projections up until 2020 the majority of AIECE institutes ranked protectionism and trade barriers as the most important risk, closely followed by issues related to Brexit. Many institutes also ranked slowdown of growth in China and emerging countries as one of the most important risks. This would seem to indicate that uncertainty with respect to future external trade relations and shocks to national economies from abroad are viewed as the greatest risk to European economies up until 2020. A global asset price fall and signs of political disintegrations of the EU also seem to concern many institutes.

The explanations offered for the general low-inflation environment vary a great deal between AIECE-institutes. Perhaps not surprisingly, low inflation expectations and changes to commodity prices are ranked among the most important factors in this respect. More noteworthy, precarious jobs and employment/unemployment are both ranked as major causes of the weak inflation outlook, suggesting that recent structural changes to labour markets across Europe have contributed to the reduction in the share of national income going to labour. While under and unemployment are usually seen as part of the explanation for such a trend, the precariousness of most jobs created seems to reducing inflationary wage demands below increases in Gross National Income.

4.2 Unpredictable monetary policy-environment?

At the end of 2018 several central banks signalled their commitment raising interest rates the following spring and beyond. However, by April 2019 many of the advertised interest rate increases had already been cancelled or postponed. The ECB and other independent European central banks remain no exceptions to this, continuing an expansionary monetary policy.

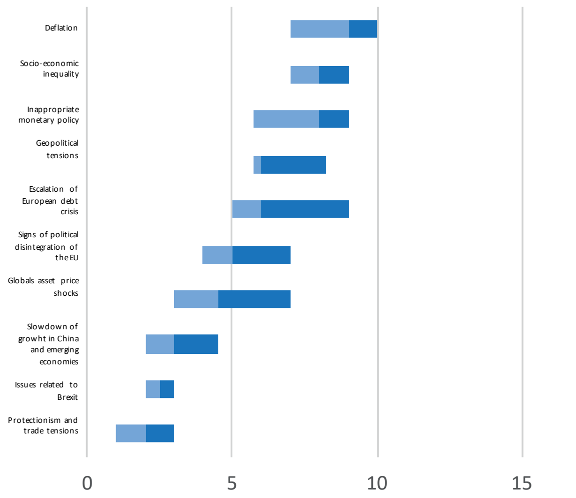
[10] The UK will also participate in the EU parliamentary election at an expected direct cost of £108 million plus any campaigning costs. Source : https://www.instituteforgovernment.org.uk/explainers/european-parliament-elections-uk

[11] A finding of a recent report on labour markets in Europe. Benchmarking Working Europe 2019, The European Trade Union Institute (ETUI).

[12] OECD Compendium of Productivity Indicators 2019 http://www.oecd.org/newsroom/low-productivity-jobs-continue-to-drive-employment-growth.htm

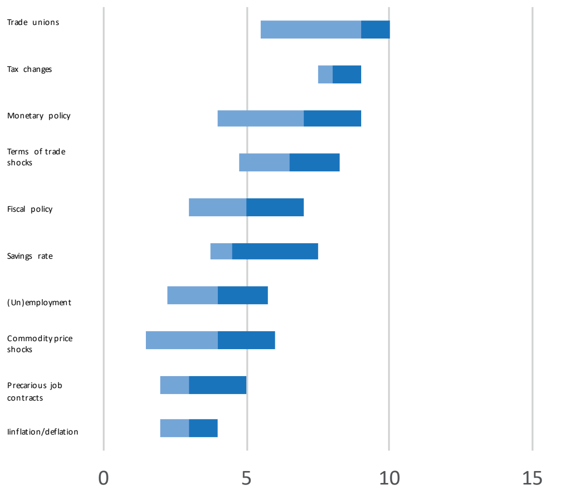
[13] The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015 https://www.nber.org/papers/w22667

Figure 4.1: Main downside risks to projections for growth in Europe up until 2020



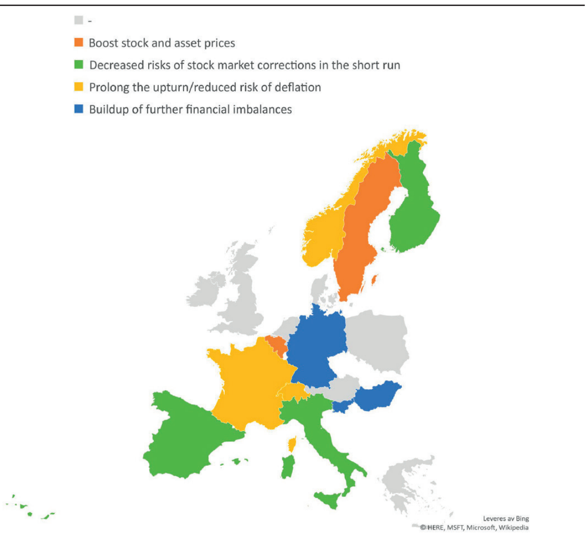
Source: AIECE institutes (n=23)

Figure 4.2: Main causes to the weak inflations outlooks for Europe. Rank 1 to 10, 1=most important



Source: AIECE institutes (n=18)

Figure 4.3: Several central banks have recently modified their monetary policy stance. Please choose the most important effect of this?



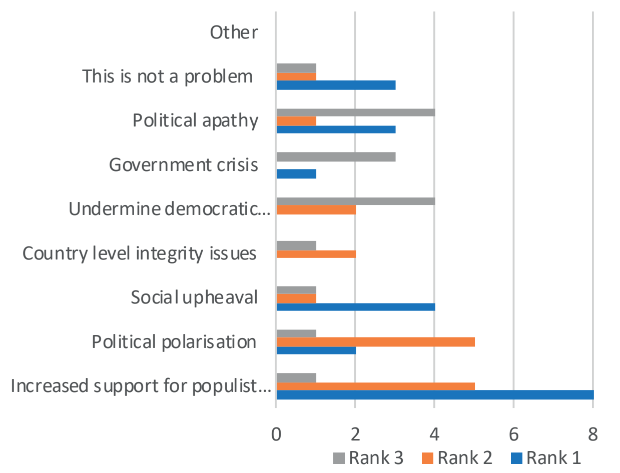
Source: AIECE institutes (n=18)

Therefore, the AIECE-institutes' assessment of the effect of this continued policy of negative or very low interest rates is of great interest. The institutes seem quite divided on the issue. Five institutes believe it will boost stock and asset prices, while three believe it reduces the risks of a stock market correction. Five institutes believe it will result in a build-up of further financial imbalances, and four believe it will prolong the upturn. Although only one of the options specifically mentions financial instability, both unfettered stock markets and a boost to stock and asset prices have the potential for stimulating bubbles. In other words, most AIECE-institutes accept that the current monetary policy environment (directly or indirectly) can have adverse effects on financial stability. Geographically institutes from Germany, Hungary and Slovenia emphasise the risks of a build-up of financial imbalances. The answers also suggest that several institutes believe that many European economies are still in need of the support of an expansionary monetary policy to avoid an economic downturn.

4.3 Social and political polarisation

The current political climate in Europe is characterised by increased support for radical and populist parties, with corresponding upsets for the long established political parties. Much consideration has been given to this as a symptom of social exclusion and disenfranchisement. Against the backdrop of the upcoming European parliamentary election in May we asked the AIECE-institutes if such a social development is relevant for their respective country, and how this might manifest itself. The answers seem to confirm recent research and news coverage: marginalisation fuels support for populist movements and increases political polarization. Most institutes ranked populism, polarisation and social upheaval as the most likely manifestation of disenfranchised groups in the near future. The answers also suggest that social marginalisation and inequality are substantial challenges

Figure 4.4: Are there substantial subsets of your population that feel disenfranchised, and if so how might this manifest itself in the short to medium term? Choose the three most important consequences, 1= most important



Source: AIECE institutes (n=21):

which will continue to challenge many European countries in the years to come.

We also asked AIECE-institutes about the effect on different groups of the EU-expansion in 2004. In sum, institutes answered high-skill workers and large corporations as benefitting the most, and low-skill workers benefitting the least. The latter group was characterised by several institutes as being negatively affected. Geographically most institutes in Western-Europe and Greece stated that low-skill workers have been (somewhat) negatively affected by the EU-expansion of 2004. On the other hand, most Southern and Eastern European countries answered that it had affected low-skill workers in their country positively. Most institutes answered that the EU-expansion benefitted people in the role as consumer. Regardless of EU-geography, when asked about which social group(s) in one's own country benefitting the most from current policy, only two institutes answered low-skilled workers.

In sum, these answers all indicate that current social developments in Europe are likely to amplify the ongoing wave of political polarisation. It would seem prudent to anticipate an election to the European parliament in May where parties appealing to low-skilled workers and disenfranchised groups.

Despite the perceived negative effects of previous rounds of EU-expansion, the AIECE institutes seem quite divided on the issue related the EUs future. Although a substantial number of institutes believe the EU will develop in a direction of some disintegration, about as many institutes answered that the future prospect of the EU will be unchanged or towards some further integration.

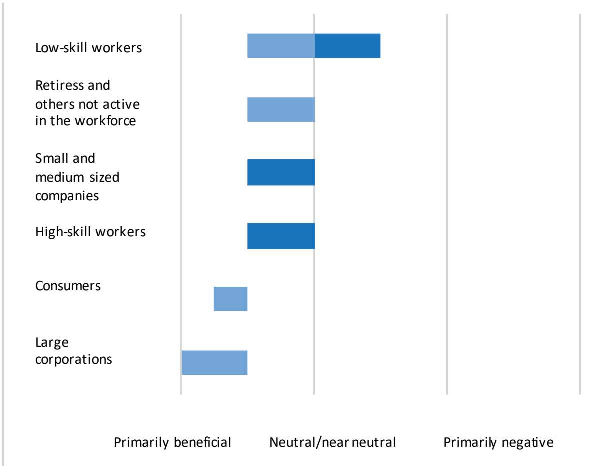
4.4 Economic policy

4.4.1 Labour market

Most institutes answered that workers in full time employment enjoy a significant deal of job security on both a national and EU-level (see figure 3.2). Many of the same institutes also answered that involuntary part time work and precarious work situations are common. Seen in light of the AIECE-institutes' answers relating to economic policy, this is unsurprising. When asked about their own country's three most important goals for economic policy only one institute answered that full employment was a top three goal for economic policy, and only two answered improved job security. Economic growth and increased competitiveness internationally are the most common goals.

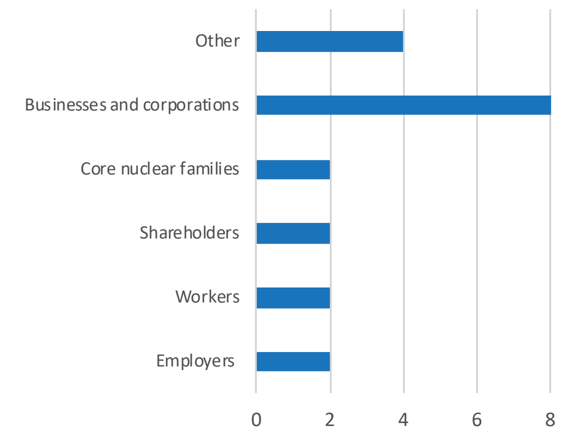
Most institutes also answered that businesses and corporations benefit relatively from current economic policy. Seen in light of declining unionisation levels, reduced scope of collective bargaining and a substantial reduction in labour's share of total income since the 1990s (ETUI 2019:51,56-58), there are clear signs that current economic policy in most AIECE member countries is hav-

Figure 4.5: Effect on different groups by the EU-expansion of 2004



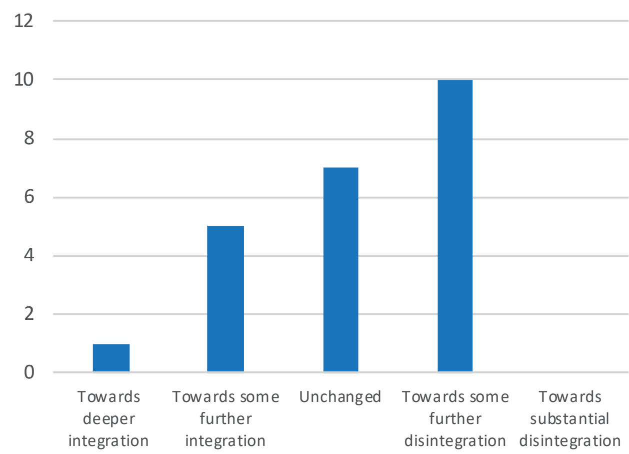
Source: AIECE institutes (n=19):

Figure 4.6: Who do you believe benefits most from current policy in your country?



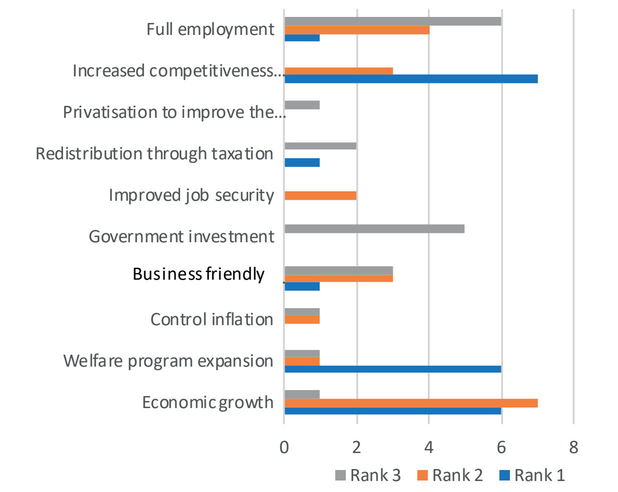
Source: AIECE institutes (n=22)

Figure 4.7 : The future prospects for the European Union, given todays political climate?



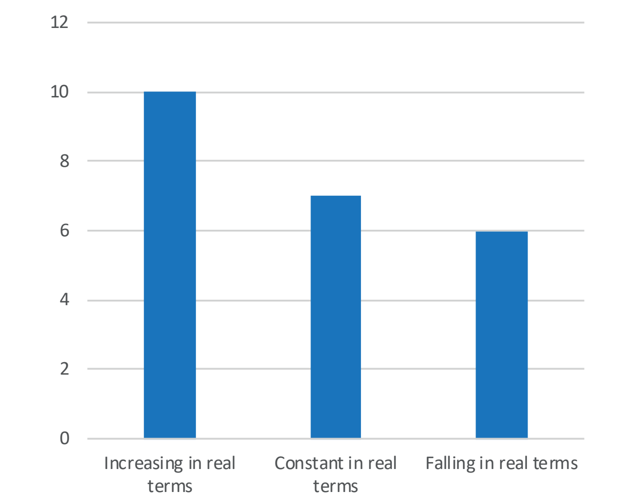
Source: AIECE institutes (n=23)

Figure 4.8: Which of the following alternatives are most in line with your country›s economic policy goals. Please choose 3 alternatives, 1=most in line



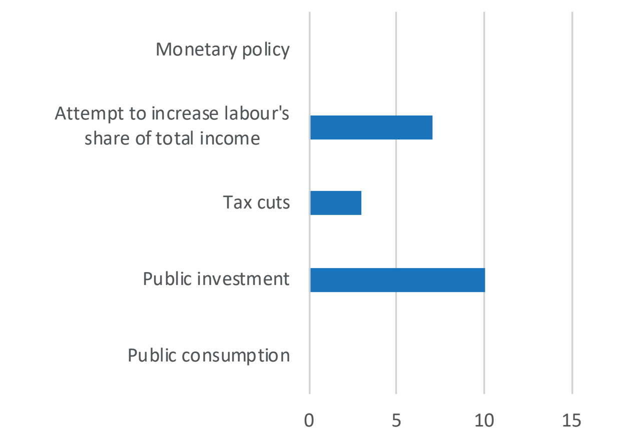
Source: AIECE institutes (n=24)

Figure 4.9: The recent development in spending on welfare programs (individual country)



Source: AIECE institutes (n=23)

Figure: 4.10: The most appropriate policy to increase economic welfare for the majority of the population (individual country)



Source: AIECE institutes (n=20):

ing a detrimental effect on domestic labour markets in general, and workers in particular.

4.4.2 Economic welfare and inequality

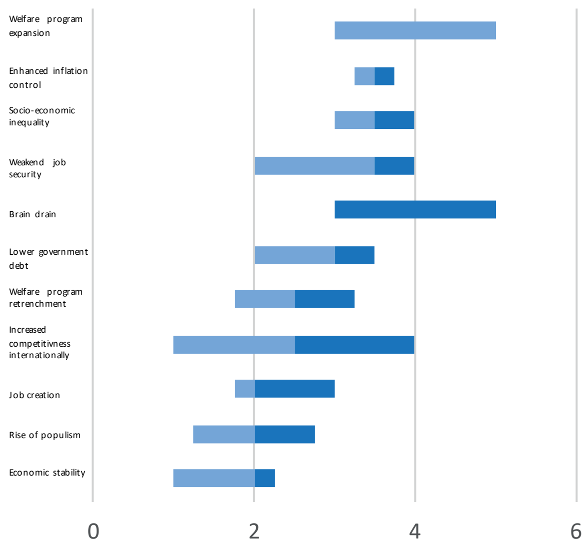
Most AIECE-institutes answered that spending on welfare programmes is increasing or is constant in real terms, and that the implementation of welfare programs is primarily reliant on extensive public financing. A handful of institutes also answered that welfare program expansion is the most important goal for their country's economic policy. Most institutes answered that public investment and attempts to increase labours' share of total income, is the most appropriate way to increase the welfare of its country's population. Despite this, only one institute answered that welfare program expansion has been a key outcome of policies undertaken during the last decade. A much larger share of institutes answered that socio-economic inequality and welfare program retrenchment have been the main result

When asked about the main causes of inequality since the EU-expansion of 2004, answers referring to a weakened power position of workers, changes to taxation and benefits and remuneration of top earners are mentioned most. Seen in light of other answers it seems that most AIECE-institutes, to a varying degree, believe economic policy to have been the main cause of increased inequality in Europe. Intra-EU immigration seems not to have been granted an important role by the institutes in this respect. However, weak labour market institutions make workers more exposed to possible adverse effects of immigration such as "a race to the bottom" on wages and weaker employment protections, which again can be further amplified by a lack of social safety net and/or redistribution via taxes/benefits or welfare programs.

Questions for discussion

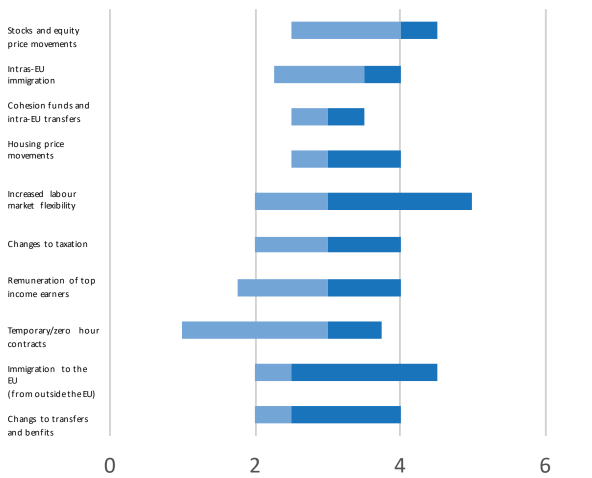
1. There are clear signs of weaker inflation outlooks in the near future. Do you think there is an increased risk of deflation in Europe? Assuming there is a risk of deflation, what might be the causes and what will be the consequences for the economies of Europe?
2. According to Katz and Kreuger (2016) almost the whole increase in employment in the USA from 2005 to 2015 was due to the rise of alternative work arrangements (temporary employment, on-call workers, contract workers, independent contractors/freelancers). Please discuss similar developments in Europe, and arguments for/against such a development.

Figure 4.14: Main outcomes of policies undertaken the last decade (individual country)



Source: AIECE institutes (n=22)

Figure 4.15: Main causes to the changes in inequality since 2004 (individual country)



Source: AIECE institutes (n=17)

5 References

ETUI (2019): Benchmarking Working Europe 2019, ETUI aisbl, Brussel.

Katz, Lawrence and A. Krueger (2016): The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015, NBER Working paper.

OECD Compendium of Productivity Indicators 2019 http://www.oecd.org/newsroom/low-productivity-jobs-continue-to-drive-employment-growth.htm

Appendix 1: Questionnaire

Country questions

2.1.1 Please choose the three most important factors according to their positive effect on economic growth up until the end of 2020 in your country, and rank them from 1 to 3, where 1 is the most important…Increased domestic demand/Increased global demand/Monetary policy/Fiscal policy/Other
2.2.1 What is the expected fiscal policy stance in your country up until the end of 2020? Very contractionary/Contractionary/Neutral/Expansionary/Very expansionary
2.2.2 What do you think is a suitable fiscal policy stance in your country up until the end of 2020? Very contractionary/Contractionary/Neutral/Expansionary/Very expansionary Please elaborate

2.2.3 How has the level of public debt progressed in your country since the Financial crisis of 2008? Increased/Stabilized/Decreased/Public debt is not a relevant problem
2.2.4 What are the proximate causes of this development? Banking crisis/Terms of trade shock/Austerity / Fiscal policy /Monetary policy Please elaborate

2.2.5 How would you describe the current and planned measures to stabilize the level of public debt in your country. Very insufficient/Insufficient/Appropriate/Excessive/Very excessive/Not relevant
Please elaborate
2.3.1 What is the expected monetary policy stance in your country up until the end of 2020? Very contractionary/Contractionary/Neutral/Expansionary/Very expansionary
2.3.2 What do you think is a suitable monetary policy stance in your country up until the end of 2020? Very contractionary/Contractionary/Neutral/Expansionary/Very expansionary Please elaborate
2.3.3 Do you think the current balance between fiscal and monetary policy in your country is appropriate? Yes/No/Monetary policy has a too big a role/Fiscal policy has a too big a role. Please elaborate
2.3.4 In the next significant economic downturn what would be an appropriate (but not necessarily feasable) response for your country? Please choose three, where 1 is most important. QE and even lower interest rate/Fiscal expenditures /Revenue neutral broadening of the tax base/Helicopter money /Nationalisation/Progressive redistribution/Debt restructuring /Rely on existing automatic stabilisers/ Import substitution ("buy domestic"-campaigns)
Please elaborate.
2.4.1 The currently implemented measures to reduce unemployment in your country are Insufficient/ Appropriate/Excessive/Not relevant Please elaborate
2.4.2 To what extent would you say that your country is affected by a shortage of appropriate labour (mismatch in the labour market)? Very affected/ Somewhat affected/Not at all affected Please specify
2.4.3 How much job security do workers in permanent full time employment enjoy in your country? A great deal/Some /Little/Very little/none
2.4.4 What is your perception of the extent of workers on temporary/zero hour contracts (precarious jobs) in your country? Widespread/Common/Somewhat common/Unusual/Very unusual If possible, please specify sectors.
2.4.5 What is your perception of the extent of invoulantary part time work in your country? Widespread/Common/Somewhat common/Unusual/Very unusual If possible, please specify sectors.
2.4.6 What is your perception of employer-worker power structures in your country's labour market? Employers power has been greatly enhanced during the last decades/Employers power has been somewhat enhanced during the last decades/Workers power has been enchanced during the last decades/The relationship has changed little during the last decades/Other Please elaborate on the causes.
2.4.7 Are trade unions becoming more or less influential in your country? More/Constant/Less/Trade Unions have little or no influence If appropriate, please elaborate.
2.4.8 Are business federations/employers associations becoming more or less influential in your country? More/Constant/Less/Trade Unions have little or no influence If appropriate, please elaborate.
2.5.1 Please choose the three most important factors according to their effect (postive or negative) on private consumption in your country up until the end of 2020, and rank them from 1 to 3 for both categories seperately, where 1 is the most important. Labour market conditions/Saving rate/Fiscal policy/Monetary policy/ Credit conditions /Consumer confidence/Trade related shocks/Redistributionary policies/Commodity price shocks/Other
If you included "other", please specify.
2.5.2 How confident are you of investment growth in your country? Very confident/Confident/Neutral/Low level of confidence/Not confident at all
2.5.3 Based on your country's position in the business cycle, would you say that private investment is… Very weak/Weak/Neutral/Strong/Very strong
2.5.4 Based on your country's position in the business cycle, would you say that public investment is… Very weak/Weak/Neutral/Strong/Very strong
2.5.5 What are the most important factors limiting investment in your country within a two year perspective? Please rank from 1 to 10, where 1 is most important. Weak external demand/Weak domestic demand/ Weaker business perspectives/Cost of and access to capital/Geopolitical risks /Weak public expenditures/ Terms of trade changes/Trade pact changes/Changes to tariffs and non-tariff barriers/Other
If you included "other", please specify.
2.6.1 What are the main downside risks to the projections for your country in the coming two years? Please rank them from 1 to 10, where 1 is most impor-

tant. Increased oil and energy prices/Brexit related issues/Populist movements and parties/Increased protectionism and trade barriers /Euro area integrity issues/Geopolitical tensions/Global asset price fall/Net migration /Slowdown of growth in China and emerging countries/Re-emergence of the european debt crisis
Other important downside factors
2.6.2 How has the overall real wage level in your country developed during the last decade (since the 2008 Financial crisis)? Increased/Constant in real terms/Decreased
2.6.3 Is declining real wages an increasing problem in your country, and if so to what extent? Not really/To a large extent/To some extent
If you answered in the affirmative, what might be the reason(s) why?

Euro area and EU questions

4.1.1 Please choose the three most important factors according to their positive effect on growth in the euro area up until the end of 2020, and rank them from 1 to 3. An initially low level of fixed investments (implying a recovery)/A competitive exchange rate level/Monetary policy/Fiscal policy/Increased global demand/Increased domestic demand/Other
If you included “other”, please give a short description.
4.2.1 What is the expected fiscal policy stance in the euro area up until the end of 2020?
Very contractionary/Contractionary/Neutral/Expansionary/Very expansionary
4.2.2 What do you think is a suitable fiscal policy stance in the euro area up until the end of 2020? Very contractionary/Contractionary/Neutral/Expansionary/Very expansionary
Please elaborate.
4.3.1 What is the expected monetary policy stance in the euro area up until the end of 2020? Very contractionary/Contractionary/Neutral/Expansionary/Very expansionary
4.3.2 What do you think is a suitabe monetary policy stance in the euro area up until the end of 2020? Very contractionary/Contractionary/Neutral/Expansionary/Very expansionary
4.3.3 Will the ECB reintroduce QE-programs, and if so when? Not likely/Yes, within twelve months/Yes, twelve months or more from now/Yes, timeframe uncertain
4.3.4 What are the likely consequences of reintroducing QE-programs? Please rank your answers from 1 to 6, where 1 is most likely. Buildup of further financial imbalances/Increased real investment/Increased inequality/Reduced risk of deflation/Slump postponement/Other Please elaborate, and specify "other" if chosen.
4.3.5 In the next significant economic downturn what would be an appropriate (but not necessarily feasable) response for the euro area? Please choose three, where 1 is most important. QE and even lower interest rates/Fiscal expenditures financed by a new common European bond/Revenue neutral broadening of the tax base/Helicopter money/European Investment Bank (EIB) financed investments/Progressive redistribution/Mutualisation and restructuring of Euro area debt/Rely on existing automatic stabilisers
Please elaborate.
4.3.6 What would be the consequences of not dealing with the economic downturn with the most suitable type of policy? Please rank your answer from 1 to 3, where 1 most likely. Further asset price appreciation/Social upheaval/Political polarisation /Re-emergence of the european debt crisis/Euro area integrity issues/Other Please elaborate.
4.4.1 Assuming a NAIRU exist. Do you think it is has fallen in the euro area? If so, why? Please rank them from 1 to 3, where 1 is most important. Weaker labour rights/Lower degree of unionization/Temporary/zero-hour contracts/Less frictions/Changes to statistical definitions/Other If you chose "other", please give a short description.
4.4.2 What measures might be taken to ensure labour mobility in the euro area? Please rank them from 1 to 3, where 1 is most important. Harmonize labour laws/Increase the level of unionization in Europe/Coordinated fiscal policy/Increase labour market flexibility/Implement a european minimum wage/Better language education/Labour mobility is high enough/Other If you chose "other", please give a short description.
4.4.3 What is your perception of overall labour security in the euro area? Highly unsecured/Unsecured/Secured/Highly secured Please elaborate
4.4.4 What is your perception of invoulantary part time work in the euro area? Widespread/Common/Somewhat common/Unusual/Very unusual Please elaborate
4.4.5 What is your perception of employer-worker power structures in the European labour market? Employers power has been greatly enhanced during the last decades/Employers power has been somewhat enhanced during the last decades/Workers power has been enchanced during the last decades/The relationship has changed little during the last decades/Other
Please elaborate

Risks and Challenges for Europe

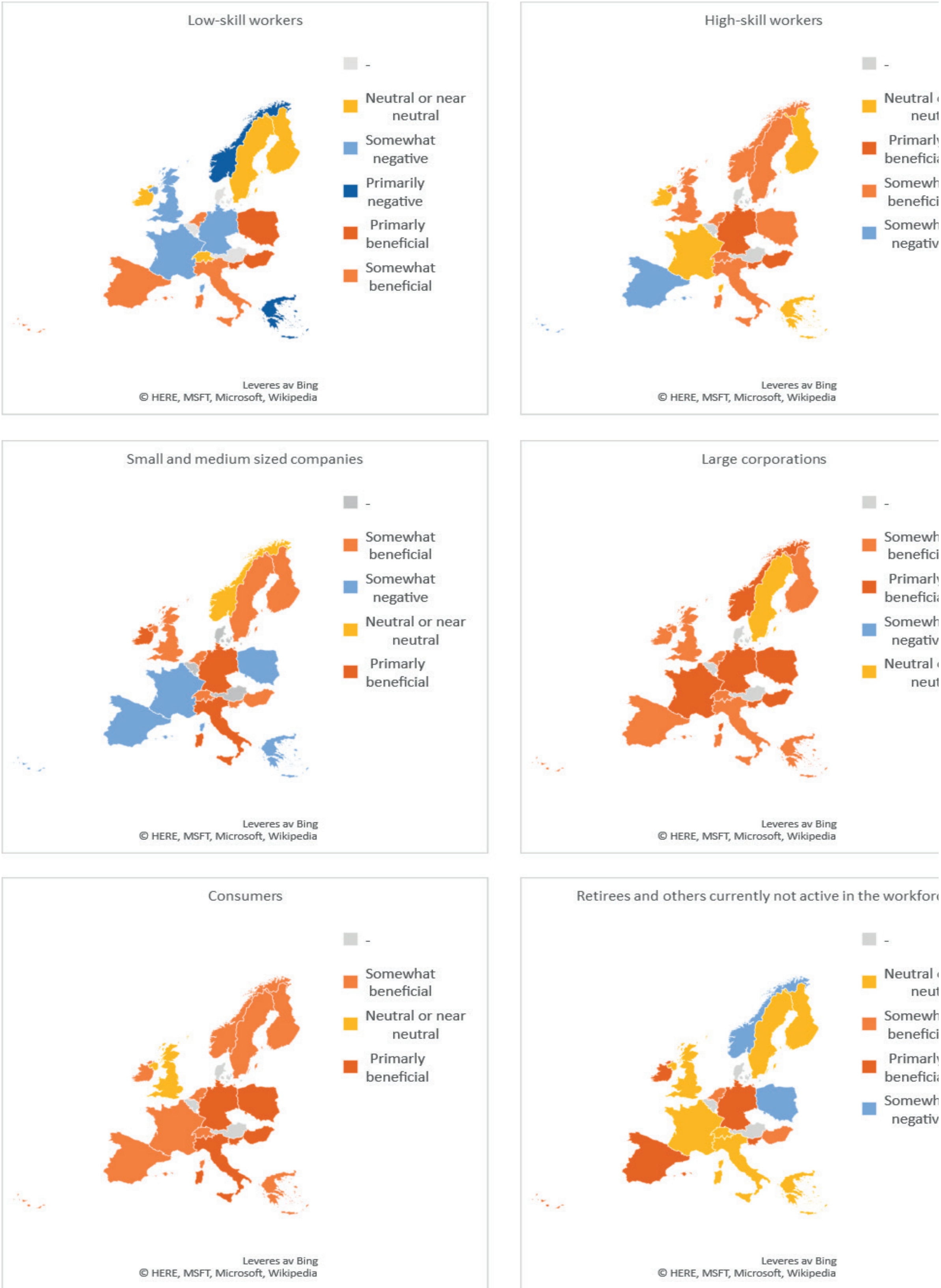
6.1 What are the main downside risks to your projection for growth in Europe up until 2020? Please evaluate them according to their importance from 1 to 10, where 1 is most important. Slowdown of growth in China and emerging countries/Issues related to Brexit/Inappropriate monetary policy/Global asset price shocks/Protectionism and trade tensions/Signs of political disintegration of the EU/Socio-economic inquality/Geopolitical tensions /Deflation/Escalation of the European debt crisis.
6.2 Are there substantial subsets of your population that feel disenfranchised, and if so how might this issue manifest itself in the short to medium term? Please choose the three most important consequences, where 1 is most important. Increased support for

populist movement/Political polarization/Social upheaval/Country level integrity issues/Undermine democratic institutions/Government crisis/Political apathy/This is not a problem/Other
Please elaborate
6.3 Several central banks have recently modified their monetary policy stance. Please choose the most important effect of this? Boost stock and asset prices/ Decreased risks of stock market corrections in the short run/Buildup of further financial imbalances/Prolong the upturn/reduced risk of deflation Please elaborate.
6.4 What are the main causes of the weak inflation outlook in Europe? Please rank from 1 to 10, where 1 is most important. Terms of trade shocks/Commodity price shocks/Tax changes/Trade unions/Monetary policy/Fiscal policy/Employment/Unemployment/ Inflation/deflation expectations/Precarious job contracts/Savings rate
If other causes, please specify.

Additional questions

8.1 How would you describe the recent development in spending on welfare programs in your country? Increasing in real terms/Constant in real terms/Falling in real terms
8.2 Overall, how would you describe the implementation of welfare programs in your country? Towards privatisation /Increased use of means testing (exclude higher earners)/Provision via civic organizations (churches, charities)/Extensive public financing/ Part reliance on self-insurance (co-payment)/Part reliance on self-insurance (exclusions and non-coverage)/Other Please elaborate
8.3 Which of the following alternatives are most in line with your country's economic policy goals. Please choose 3 alternatives, where 1 is most in line. Economic growth/Welfare program expansion/Control inflation/ Improved environment for businesses /Government investment/Improved job security/Redistribution through taxation/Privatisation to improve the prosivion of public goods/Increased competitiveness internationally/Full employment
8.4 What have been the main outcomes of the policies undertaken in your country during the last decade? Please choose up to 5, where 1 is most important.
Increased competitiveness internationally/Socio-economic inequality/Welfare program expansion/Welfare program retrenchment/Rise of populism/Brain drain/ Job creation/Weakend job security/Enhanced inflation control/Economic stability/Lower government debt/ Other
Please elaborate
8.5 Who do you believe benefits most from current policy in your country?
Employers /Workers/Shareholders/Core nuclear families/Businesses and corporations/Other
Please elaborate
8.6 What do you believe is the most appropriate policy to increase economic welfare for the majority of the population in your country? Public consumption/ Public investmen/Tax cuts/Attempt to increase labour's share of total income/Monetary policy
Please elaborate
8.7 How would you assess the future prospects for the European Union, given todays political climate? Towards deeper integration/Towards some further integration/Unchanged/Towards some further disintegration/Towards substantial disintegration
If possible, please elaborate on your answer.
8.8 How have different groups in your country been affected by the EU-expansion of 2004? Low-skill workers, High-skill workers, Small and medium sized companies, Large corporations, Consumers, Retirees and others not currently active in the workforce, Other. Primarly beneficial/ Somewhat beneficial/ Neutral or near neutral/, Somewhat negative/Primarily negative
If you chose "other", please elaborate.
8.9 Inequality varies substantially in Europe. However, irrespective of initial levels, what do you believe have been the main causes of changes to inequality since the EU-expansion of 2004, in your country? Please rank from 1 to 5 , where 1 is most important.
Temporary/zero hours employment contracts/Intra-EU migration (within EU)/Immigration to the EU (from outside EU)/Increased labour market flexibility/ Relative remuneration gain for top income/wealth earners /Housing price movements/Stocks and equity price movements/Changes to taxation/Changes in transfers and benefits/Cohesion funds and intra-EU transfers/Other
If you chose "other", please elaborate.

Appendix 2: Effect on different groups by the EU-expansion of 2004



Source: AIECE Institutes (n=19)