The Future of Europe and What’s at Stake for the U.S.

Janice Eberly
Assistant Secretary for Economic Policy and Chief Economist
U.S. Department of the Treasury

March 15, 2013
Trade Linkages

$194B
13% of U.S. Exports

$294B
13% of U.S. Imports

*SAAR in PPP US$, 2012 Q3

SOURCE: CENSUS, OECD.
Financial Linkages

SOURCE: BUREAU OF ECONOMIC ANALYSIS.

U.S. TOTAL INVESTMENT ABROAD:
- Direct & Indirect: $11.3T

U.S. TOTAL FOREIGN INVESTMENT IN U.S.:
- Direct & Indirect: $8.5T

Rest of World:
- $5.7T

Euro Area:
- $2.8T

U.S.
Real GDP Euro Zone & U.S.

INDEX (2008 = 100)

GROWTH DIVERGES

SOURCE: OECD.
Diversity in Response to the Crisis

INDEX OF REAL GDP (2008 = 100)

- Average of Top 3
  - U.S. States

- Average of Top 3
  - Euro Area

- Average of Bottom 3
  - U.S. States

- Average of Bottom 3
  - Euro Area

SOURCE: BUREAU OF ECONOMIC ANALYSIS, OECD.
Diversity in Response to the Crisis

INDEX OF REAL GDP (2008 = 100)

- Average of Top 3 U.S. States
- Average of Top 3 Euro Area
- Average of Bottom 3 U.S. States
- Average of Bottom 3 Euro Area

SOURCE: BUREAU OF ECONOMIC ANALYSIS, OECD.
Institutional Linkages

**Banking System**
- **U.S.** Largely integrated; early action to build capital and liquidity and reduce leverage
- **Euro Area** Slower, more deliberate movement to reduce financial stress and achieve greater integration

**Sovereign Debt**
- **U.S.** Fiscal adjustment occurring with less immediate concern
- **Euro Area** Fiscal adjustment a more pressing concern

**Economic Growth**
- **U.S.** Stronger growth prospects
- **Euro Area** Challenging growth prospects
Real GDP Growth Projections

**SOURCE:** IMF.
Unit Labor Costs

INDEX (2000 = 100)

SOURCE: EUROSTAT AND BLS.
Migration

Interregional (US)/International EU-27 (EU) Migration Rate
2005 – 2007 Average

Percent of core working age population (ages 25 – 54) moving between states (US) or between EU-27 countries (EU)

- United States: 2.8
- Luxembourg: 3.7
- Cyprus: 2.2
- Austria: 1.0
- Spain: 0.9
- Denmark: 0.8
- Germany: 0.8
- Netherlands: 0.5
- Italy: 0.5
- Sweden: 0.6
- Finland: 0.4
- Estonia: 0.2
- Slovakia: 0.2
- Slovenia: 0.2
- Lithuania: 0.2
- Czech Republic: 0.3
- Hungary: 0.2
- Latvia: 0.1

SOURCE: AMERICAN COMMUNITY SURVEY (US), EUROPEAN LABOUR FORCE SURVEY (EU).
Conclusion

- Divergence in growth paths likely reflects:
  - Structural differences
  - Institutional arrangements
Conclusion

• Divergence in growth paths likely reflects:
  • Structural differences
  • Institutional arrangements

Risk Sharing at the Federal Level Helps Enable Fiscal Discipline:

Correlation Between Real GDP Growth and Various Fiscal Metrics
1995 - 2012

<table>
<thead>
<tr>
<th>Metric</th>
<th>U.S. States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Revenues</td>
<td>0.90</td>
</tr>
<tr>
<td>(ex. transfers)</td>
<td></td>
</tr>
<tr>
<td>Real Expenditures</td>
<td>0.13</td>
</tr>
<tr>
<td>Federal Transfers</td>
<td>-0.45</td>
</tr>
</tbody>
</table>
Conclusion

• Divergence in growth paths likely reflects:
  • Structural differences
  • Institutional arrangements

Risk Sharing at the Federal Level Helps Enable Fiscal Discipline:

**Correlation Between Real GDP Growth and Various Fiscal Metrics**
1995 - 2012

<table>
<thead>
<tr>
<th>Metric</th>
<th>U.S. States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Revenues</td>
<td>0.90</td>
</tr>
<tr>
<td>(ex. transfers)</td>
<td></td>
</tr>
<tr>
<td>Real Expenditures</td>
<td>0.13</td>
</tr>
<tr>
<td>Federal Transfers</td>
<td>-0.45</td>
</tr>
</tbody>
</table>

**U.S. State Deficits**
1963 - 2011

PERCENT OF GDP

-5% -4% -3% -2% -1% 0% 1% 2%

63 68 73 78 83 88 93 98 03 08

U.S. State Deficits
Deficits ex. Federal Support
Conclusion

• Divergence in growth paths likely reflects:
  • Structural differences
  • Institutional arrangements

• Europe has made significant strides toward achieving greater integration, but there is more work to do (as there is in the U.S.).
Appendix
Bank Exposure

- **Rest of Euro Area**: 469B€
- **Italy & Spain**: 74B€
- **Greece, Ireland, & Portugal**: 49B€
- **Rest of World**: 2T€

**U.S. Bank Exposure**
End of Sep. 2012

SOURCE: BIS, FEDERAL RESERVE.
Primary Surplus/Deficit

PERCENT OF GDP

United States
Germany
Italy
France
Spain

SOURCE: IMF.
Primary Surplus (Cyclically-Adjusted)

PERCENT OF POTENTIAL GDP

- Euro Area: +0.9%
- U.S.: -5.2%

Source: OECD.
Federal/Supernational Budget

European Union
$180.1B in 2011

United States
$3.6T in Fiscal Year 2011

SOURCE: OFFICE OF MANAGEMENT & BUDGET, EUROPEAN COMMISSION, FEDERAL RESERVE.
Fiscal Transfers

Net Fiscal Transfers Out/In
Federal Revenues Paid Minus Federal Spending Received, Per Capita, 2007

SOURCE: CENSUS, IRS.
Interregional Migration Rate
2005 – 2007 Average

Percent of core working age population (ages 25 – 54) moving between states or regions within a country

- Slovenia: 0.3
- Slovakia: 0.4
- Poland: 0.4
- Romania: 0.4
- Bulgaria: 0.7
- Czech Republic: 1.0
- Austria: 1.3
- Finland: 1.6
- Spain: 1.6
- Hungary: 2.0
- Denmark: 2.1
- Sweden: 2.1
- United States: 2.8

Source: American Community Survey (US), European Labour Force Survey (EU)
Migration

Note: EU countries for which data are available, including the Czech Republic, Denmark, Spain, Italy, Hungary, the Netherlands, Austria, Slovenia, Slovakia, Finland, and Sweden.

Source: American Community Survey (US), European Labour Force Survey (EU).

Percent of core working age population (ages 25 – 54) moving between states in the U.S., between regions within a single E.U. country, or internationally within the E.U.