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P R O C E E D I N G S

MR. EASTERLY: Good morning, everyone. We're going to get started. I'm Bill Easterly. I'm a Visiting Scholar at The Brookings Institution, normally a professor at NYU, and I'm actually not sure how I wound up as moderator of a session on the future of Europe since I normally work on developing countries in Africa and other places that are a lot different than Europe. But if I understand Alberto's thesis correctly that exaggerated a little bit, Europe is in danger of itself becoming an underdeveloped region, so I'm kind of looking forward to Europe being reclassified as a developing country, and all those visits to Paris to advise them on how to expand access to clean water to the residents of Paris and other -- you know, have Europe attain a millennium development goals and all that stuff. It sounds like a lot of fun.

But we're really lucky this morning to have Alberto Alesina here in person. He's been one of our field's great pioneers of political economy and a very notable commentator on European issues and widely listened to on European issues. There's no one possibly better that we could have to talk about this issue.

He's written a great new book on this subject, and he's going to talk about his book this morning.

PROFESSOR ALESINA: Thank you. Thank you very much, Bill. I hope that you will now be able to go to Europe with the developing economy, but you are right: Perhaps some countries in Europe are more endangered than others.

The book is joint with Francesco Giavazzi, who has shared his time between Bocconi University in Milan and MIT. Let me say immediately that the book has a very sort of long-term approach. If you are here to -- just to -- if you are here to listen about the business cycle in the U.S., but there is going to be a recession now of the stock market and all that, you are in the wrong place. I'm ignoring short-term issues and, as I said, I'm talking about long-term plans in Europe, and this talk is about Europe. I would be using, compared with the U.S., but the focus on the book is on Europe.

And speaking of long-term, the starting point of the book is that Europe has experienced one of the most fantastic economic miracle in the first, say, 30, 40 years after the 2nd World War. Europe was, after the 2nd World War and partly because of the devastation of the war, Europe was much, much poorer than the U.S. Spain -- if you look at this table, these are GDP per capita in several European countries relative to the U.S. And I should say from the beginning that by Europe I mean continental west of Europe, so I'm not going to say anything about Eastern Europe, and as I know that there is a lot of diversity within Western Europe, I will be focusing mostly about large Western European countries -- France, Germany, Italy, Spain, Portugal -- so Western European large countries.

So Europe was a poor region at the end of the 2nd World War.

Spain had a GDP per capita 27 percent relative to the U.S. The richest was France, but it still was like about 50 percent.

By 1980, by middle of the '80s, Europe has got on tremendously. France was almost 90 percent relative to the U.S. Italy was 80 percent; Spain was almost 60, and was now Euro area went from 42 to 71.

From the mid-'80s onward, this process of catching up has stopped and, in fact, in the last decade or so several major countries have experienced a pretty major decline. Italy, Germany, and France have in the last 15 years or so have declined relative to the U.S.

So the first question is: What has made the miracle, the U.S. miracle, stop sometime in the '80s, like 40 years about after the end of the 2nd War. And in the book we argue that there are two explanations, and we, of course, are not the first one to argue that, but we make two points. One has to do with policies starting in the late '60s.

From the late '60s Europeans were working very hard, and they were just rebuilding Europe. Starting in the late '60s they sort of started caring about other things like redistribution, protection of workers, and value of social demand, and pensions. And the government of Europe responded very, very generously because EUDO was growing very fast. It seemed easy to respond generously to all these demand -- perhaps too easy.

And then when the crisis in the '70s came, this social demand to which policy had responded so generously turned into problem, like the abandonment of "cretalio" meritocracy that was the result of -- some undesirable result -- of this May -- the French May of '68. Inflation and the public deficit became the way of financing this social demand.

The second -- the also the industrial policy with an industrial policy that was protecting incumbent -- incumbent firms, incumbent workers -- and there were several legal constraints to new entry and innovation. And the second argument is a technological one that is the kind of European model based on semi-public or semi-public large enterprises in traditional sector like steel and automobile and so on, was perfectly fine in a period when Europe was catching up relative to a country which was more advanced technologically, namely the U.S.

But then at some point, especially today in order to grow and advance the economy, you need to innovate, and these traditional industries are not the way to go anymore; and Europe has been slow, much slower than the U.S. in achieving this transformation. And so when this transformation was needed, the U.S. was very quick in jumping into the new model, and Europe was much slower.

Now, let's go a little bit deeper into what this difference of income-per capita comes from, difference in income per capita can be used to treat different things: how many people work; the fraction of population employed;

how much people who work do work for the hours worked per person; and the productivity. And the behavior of this (inaudible) compared to the U.S. in Euros has been actually quite interesting in the postwar period -- or at least, in particular, I want to focus on the period of the European what we call "European decline."

If you look at the first period when Europe sort of stopped catching up relative to the U.S., from '80 to, roughly, 1995, there is nothing magic about this to date, but just give you a sense of the sort of the first half of this three decades from 1980 to today. Income per capita in the U.S. was growing at 2.2 per year, and the other countries in Europe were growing a little less with the exception of Spain, which has some special feature, and if we have time, I'll mention in a second.

But what was happening in that period was that Europeans were working less and less. If you look at column 2 and 3, fewer Europeans were working, employment rate was falling, and hours worked for employee were falling even faster. So Europeans were working less and less, but they were very productive, so when they worked they were quite good, actually.

So the last column shows that European managed to basically stay closer to the U.S. growth rate because they were very good, actually, when they worked. I should say for those in the room who are not economists that, in general, the most difference, for example, in growth rate of income per capita, if they are prolonged for a few decades can become very, very large in terms of level of GDP.

And when I present this book in Italy, for example, I used the calculation which is quite shocking, namely, that if Italy will keep growing at the rate of growth that it has had in the last 15 years, and in the U.S. we keep growing at the rate that it has had in the last 15 years, in -- it's not a prediction, it's just a projection, an arithmetic projection -- in 2030 Italy will have GP per capita 30 percent of that of the U.S. And that's, of course, what Bill was saying at the beginning, if a prolonged difference, even relatively a small difference -- one percent, one-and-a-half percent a year -- if projected for only a few decades can become huge.

So that's why I think, when you see differences of even, say, 2.2 relative to 1.7, it is not more, because we are talking about long-run effect. So summarizing, in this period European were working less and less but they were very productive when they were working.

In the second half of these three decades, things have changed a little bit for the worse for Europe because not only European keep working less and less, as you see in the third column, even though employment was increasing again but hours worked kept falling, and the productivity per hour was performing much less well than in the U.S., particularly in Italy and Spain, but also in --

So in this period, not only Europeans were working less, but they were not as productive as Americans, and that has created a fairly substantial decline in GDP per capita in Europe relative to the U.S. So this is a picture of how it works in various countries in Europe and the U.S. The yellow line is the U.S., which is reasonably stable; instead Europeans were working more than Americans in the '50s and '60s, and their hours worked, their employment collapsed or declined steadily, and now they work much less than Americans. And when I say "European" I mean in particular German, French, and Italians.

Why do Americans work -- why do Europeans work less? I think three explanations have been suggested: one is tax rate. At recent note of private economic ad press could argue that you can explain the entire difference in hours worked across countries by using a margin of tax rate on income, and this is the picture that shows that the margin of tax rate on the horizontal axis and hours worked per person in the vertical axis, and there is a downward shift in the relationship.

Certainly, taxes matter; I disagree that taxes are the only explanation of this difference. I'm not even sure it's the main explanation. What I think -- and I have a paper with Ed Glayson and prove such a doubt in the *MBR Market Annual* of a couple years ago. We argued that with more importance than tax rate are labor relations and union-imposed or union-agreed would be a regulation about work hours.

This is a picture showing the share of employee covered by union contracts and hours worked per person, there's a strongly downward working relationship. But if you look at -- if you actually read the Eastern labor relation, you see that reduction in hours worked was one of the main demands of unions starting in the late '60s, early '70s, and essentially constructing imposed limitation of extra hours or imposed vacation time per year explained a large part of the differences across countries.

And, finally, the third explanation that Ollie Dibenshada of MIT pushes quite a bit is that Europeans have simply chosen to work less because they want to enjoy life more. That's certainly also probably part of the picture, but I would argue two things: One is that this labor regulation do explain a lot of the behavior of hours; and second, it may be that it -- it may be true that Europeans want to work less, but then they don't seem to understand, or they pretend not to understand, the consequences of that in economic growth and level of income because, if you go to Europe, you keep hearing about, "Oh, we need to increase growth, we need to increase growth." So there seems to be a disconnect between the fact if you want to grow more, probably you need to work more.

Now, this -- there is this change in the behavior of productivity also is highlighted by this other number in -- just focus on the first two columns, you asked that's a newer area -- while in the period from 1980 to 1995, very few jobs were being created in Europe. There was a time of very tight labor regulation; it was a time of very high unemployment in Europe -- 10 percent, 12 percent, 20 percent in Spain. There was a time when no jobs were created in Europe.

If you compare the total number of job created in Europe and the Euro area, which is pretty much the same size of the U.S. in terms of population, almost 26 million jobs were created in the U.S. and less than 15 million in Europe. But as I said, hourly productivity was not doing too badly in Europe. Look at Germany, France, Italy, and Spain in terms of hourly productivity.

In the period 1995 to 2006, instead a lot more jobs have been created in Europe, partly the result of labor market reform that had occurred in Europe. Some of them have been good reforms, some of them have created problems, but, certainly, jobs have been created in Europe just as much as in the U.S., that I was saying a moment ago that these are low productivity, with low productivity relative to the U.S. So there's been this switch from high productivity, fewer people working with high productivity, with more people working but much less productive.

Now, before this casting so what to do about it? I think we should pause for a moment to say, to address a point which Bill was raising in sort of a joking manner, but is actually a serious problem, namely: Should we be worried as -- when I say "we" as in European -- should we be worried if we become less rich relative to the U.S.? I mean does "relatively well" and relative income matter, it's a very serious question because you may say, "Well, you know, Europe is not growing that much, but it's a great place to live and it's still a wealthy region, so why worry?"

I think there are a few reasons why one may worry. One is that political and military power depends on relative wealth, and so to the extent that Europe wants to play a role in international relations, foreign policy, and play -- be accounted by the U.S., it better have anatomy and serious economic -- serious military power, and that is costly. And Europe has always relied on the U.S. for defense in all the postwar period, and spends much, much less than the U.S., and there is no comparison in the military power of Europe and the U.S.

The second, of a totally different nature, is a psychological one: the lot of research that shows that by psychologies that happiness depends on relative income, not absolute income. So to translate it into journalistic terms, when Korean and Chinese tourists would be the only one that can afford expensive restaurant in Paris, the Parisian may not be so happy. So they may not have problem with the water, as Bill was pointing out, they still would have good water at home, but they won't be able to drink Perrier in restaurants. They'll have to drink their water at home, and that may be a little bit disconcerting.

Third is that countries that stop growing, they may develop a culture of stagnation, and they may stop innovating. And that may be sort of a growth problem in which you stop growing, you stop innovating, and then you start declining not only relative to everybody (inaudible) term, and there has been some extraordinary example like Argentina, who was one of the wealthiest countries in the world about 100 years ago, and now it's turned into a middle income country.

And fourth is a more mundane issue that declining demography can be sustained only by higher growth. There are fewer -- the demography in some countries in Europe, particularly Italy, is very, very poor, so if Italy doesn't start growing pretty fast pretty soon, then their retirement accounts are in really serious trouble.

So what can be done? Well, our recipe is an injection of pro-market policies in Europe, and I want to spend only a couple of minutes just to mention a few of these policies because they are fairly well known. Then I want to spend more time, a couple of more minutes on the more difficult issue about why these policies tend not to be adopted and what the European Union could do.

Europe need a good dose of liberalization of good and particularly service market and liberalization of labor market, namely, taking away judges from labor disputes and letting firms optimize on the use of their manpower and introduce well-working system of unemployment compensation.

There have been two type of labor reform done in Europe recently. A couple of country, particularly Denmark and Sweden have done what I think is the right thing; that is to liberalize the hiring and firing decision of firm, but introducing fairly general unemployment subsidy, but then an unemployment rate collapsed in these countries, and so the unemployment subsidies are not that expensive because very few people are unemployed.

Other countries have introduced labor market reform -- Italy, France, and Spain -- which they have introduced temporary contract for young people to bring them into the labor force. But that as created a dichotomous labor market in which elderly, protected, unionized workers are as protected as before, and then there are this entry-level employee that have never moved by firm into the regular market precisely because firm do not want to get them -- to be stuck with them. So there is a dichotomous labor market which is politically explosive and is one of the explanations of the low productivity growth in Europe because firms have no incentive to train an increase the productivity of these temporary workers that they go in and out of the firm.

Well, Europe is famous for its welfare system, and certain Europeans have different priorities relative to the U.S. in terms of how much the welfare state should be generous. And as a bit of a commercial break, in a previous book with Ed Glazer we discuss why it is that Americans and Europeans have different precedent on welfare. But whatever the reason, Europeans are more sensitive to equality than Americans; but the problem is that a lot of the welfare system in Europe are not that deficient, are distributing -- are taking from the rich and giving to the poor.

This data are from the OACD, or from Eurostat, actually, and in Northern European countries, which have a very generous welfare state, the state gives -- they are generous but they are quite effective. The percentage of people at risk of poverty before and after social transfer, and there are a lot of people in Sweden feel, other than Denmark -- actually more so than in other countries in Europe -- at the risk of poverty before government intervention, but the social welfare system is very efficient in moving a lot of people away from the risk of poverty.

Now, in other countries, particularly Southern European country -- Italy, Spain, Greece, and to some extent Germany -- the welfare system is much less efficient. Certainly -- and the level of spending over GDP is a little bit lower in Germany, Italy, and France than, say, Sweden, but not that much lower these days. And, but the efficiency of the welfare system in moving resources from the rich to the poor is not that high. So Italy, for example, Italy spent almost 50 percent of GDP -- the government spending in Italy is almost 50 percent of the GDP, and they only managed to move three percent of the families from the risk of poverty, away from the risk of poverty. So the welfare systems in several European countries are quite inefficient.

Let me say also that a very important factor in some European countries is the civil justice system that doesn't work. It's very slow and inefficient, and therefore that's a market impediment. There are very high antibarriers in market in -- in some markets in Europe, both because there are legal barrier but also because a noneffective justice system is an indirect barrier.

If I know that I cannot sue Bill -- if I don't know Bill and I have to decide whether to do business with him, if I know that I cannot sue him, or if I sue him if he's not a nice guy, the civil justice system is not going to do anything, and I cannot recover my losses. I'm not going to do business with Bill if I don't know him. I will do business only with people that I know because I don't rely on the justice system. And that makes it costly and reduces the well functioning of the market.

For the sake of time, let me now talk about the university that would be a long detour. There are other things that, of course, they should not be done, but there are a few things that Europeans always talk about, which is sort of -- which are totally the wrong -- the wrong emphasis. And it is the wrong emphasis because these are the politically easy things to do but, unfortunately, are not the more useful.

First is that university and research in general, they need more public money, and what research in Europe mostly need is more competition between universities and needs more market incentive. And when you talk about research and market incentive at a dinner party in Europe, you're really considered a really crass American that doesn't understand that research and culture has nothing to do with money.

Second, belief that innovation needs public subsidies. The idea that government has to fit, essentially, keep leaner and give public subsidies to its firms that innovate is very ingrained in the government in the thinking about government in Europe and, again, is the wrong way to go. In market, the term is we had a loser, not government.

There is an obsession with infrastructure in Europe. Certainly, infrastructure is needed in certain parts of Europe, say, (inaudible) Southern Italy, even though the main problem in Southern Italy is no infrastructure. But the idea that we need to make the fast train in France even faster, and that's really a priority just escapes me. It seems to be that infrastructure in Europe are much better than the U.S. Try to go -- airports in Europe are much -- make better function than U.S. Roads are better, train are much better. That doesn't seem to be a priority, but if you hear any new government in any country, they would tell you that the most important is infrastructure.

And the other red herring is this obsession with coordinating policies with the European Union and other European countries, especially in the area of social policies, which lead me to -- I want to make two final point: One is the EU and one is how to go, politically, about introducing pro-market reform in Europe. So can the EU be a solution? I think it's very simplistic to give a negative view about the European Union too cool -- or a positive view of the

European Union too cool. And that's, unfortunately, are the two -- when you talk about the European Union, you have the Euro-skeptic that is like everything, and those who are in favor Europe, that they love Europe no matter what.

I think that the U.S., too, saw a pro-market one which has promoted certain important liberalization and serves an important single market policy and protected competition, government -- or creation of government subsidies to certain declining industries have gone. They're still there, but they have gone significantly down because the European Union has prohibited them. There's been progress in creating a single market in goods, not so much in services yet, but there will certainly be a very good role of the EU as promoting a single market.

Positive results or (inaudible) attitude in Europe which is well exemplified by the Lisbon Agenda and all that came with it. The Lisbon Agenda, for those who don't know, in Lisbon, I think in 1990-something, there was a meeting that they became like -- words like the "great, credible thing, according to those who have (inaudible), namely, in this meeting they wrote down goals that every county in Europe should achieve in social policies and in education. And the thing was borderline on the ridiculous.

There were some goals of the type that by 2010 every -- in every European country a certain fraction of children should be publicly-funded child care facilities, between the age of two and four. And there was another target for children between the age of four and six. Then there was target about women participation in the labor market in 2020, as if government could choose human participation.

So it was a perfect example of "derigistic" attitude that European governments have. So in Europe -- in Europe there are both these things, and I think that's the battle that's going on in the European Union, and it's important, at least in my view, that the first Soul of the Union wins.

For the sake of time, let me turn to a slightly more political issue. Let me -- it is not that -- it would be -- it's unfair to say that Europeans are pro-market American types trapped by anti-market government. That is not quite right. Europeans, when they are asked, they express fairly anti-market sentiments. There is a survey done by University of Maryland, and on the corner, and the question was, would you agree that the market economy is the best way to organize an economic system? And (inaudible) said a few extraordinary number, only 36 percent of French believe that market -- a market economy is a good way to go; less than 60 percent of Italians; 65 percent of Germans; and the country with the highest number of "yes" is the Communist China.

(Laughter)

So quite apart from this number which may have -- there are limitations, it's pretty clear that Europeans are not exactly free marketeers. And that may be okay. For example, if they don't want that, that's fine, but I think that there are some -- there are a couple of problems with this in saying if, like, if that's what they want, they should just get it. I think that there are two problems: One is that there is an incorrect perception that any market oriented to the form of the type of which I've discussed -- liberalizing the service sector, liberalizing the labor market with unemployment subsidies, making universities more competitive and so on and so forth, generate injustice and inequality.

And the Europeans are, perhaps correctly, very upset when I -- inequality. But actually, I think this is wrong, and Francesco and I just came out with a little book in Italian, targeted to Italy, to argue, at least for the Italian case -- but there's nothing special about Italy. I think it's a general point that for many of these countries, a move toward more pro-market policy of the type I described is not going to increase inequality; it's actually going to make societies more fair by rewarding not insider lobbies, old people with a lot of connection, a union worker better than nonunion workers, is going to actually create a more just society in terms of giving at least equal opportunities to all.

So we argued that for this country, there's not really a tradeoff between inequality and efficiency, but a more pro-market system that is also more efficient is actually less unequal and less unjust. And that's -- and I'm deeply convinced of that -- but that's a view which is still simply not a majority in Italy.

And the second argument is that a host of lobbyists that are overprotected in Italy, like insider- worker, shopkeepers, wealthy pensioners, accountant firms, they use the rhetoric of "we cannot liberalize, these are bad because that creates inequality, and that's against the poor, is a strategic use of language to protect themselves, and they are those who are anti-market now because they are worried about the poor, but, of course, they are worried about keeping their own rent and their own privileges.

And how to win political support, we are of the view that it's better to do comprehensive reform rather than doing -- going step by step, and the argument in favor of comprehensive reform is that it's difficult to attack one particular lobby, say, the shopkeepers, or -- and because they say, "Why us? Why you don't worry about pensioners who are retired, 55, like some countries in Europe?" So you don't need to give the impression that you're attacking one particular lobby or another, but it's better to comprehensive reform, and officer would not preach strike one to the case of 100, and I think that sometime it would be also (inaudible) to strike one to generate 100 responses against you.

And, finally, to conclude, when we wrote this book, a book about exactly a year ago, and we were working on it in the previous months, we were quite pessimistic about the future of Europe. The title of the book is *The Future of Europe: Reform or Decline*, it would have better to decline at that point.

I think that since then there are some -- there have been some -- a few things that generate some hope, so we then -- a very, very young and very active and very intelligent immediacy of the economy has done some very interesting reform. Denmark has moved in the right direction of pro-market reform.

In Italy not much has been done, but at least the debate have moved much farther in the direction of thinking, finally correctly, about what the issues are.

France has elected Sarkozy. Sarkozy is a bit of a mystery yet. In economic issues, he doesn't seem much of a liberal pro-market guy, but he has excellent economic advisors, and I hope we convinced him and he certainly would not have led pro-market policy if the Socialists had won, so there may be some what I consider some hope there.

So Angela Merkel is doing what she can, so there are some signs that Europe is moving in what I consider the right direction. So I advised my forecast a little bit away from decline, a little bit closer to reform relative to about a year and a half ago when we were writing this book.

Thanks.

(Applause)

MR. EASTERLY: Our discussant is Jeremy Shapiro.

MR. SHAPIRO: I'm not really sure I want that title, given what we just heard, but whether or not I take up the position, I am really honored to be here. I think this is -- I have learned an enormous amount over the years from Professor Alesina's books, and it's really a great honor to comment on it.

As an English prime minister in the 1960s, which was a difficult time to be an English prime minister, once put it: "There are two kinds of problems in my life: The political ones are insoluble, and the economic ones and incomprehensible." I think that Professor Alesina here has done a lot to help with both of those types of problems, although especially the latter.

This is a very lucid and most impressively readable account, which really admirably summarizes and explains a lot of Europe's economic problems. It's quite clear -- I'd, in fact, field a quite unsparing account of Europe's political dysfunctions as well, and this is an enormous service. So, as with any such enormous service, I will immediately ask for more.

Indeed, I guess I have to say that I'm glad since I have to live in the United States, that Professor Alesina did not subject this country to similar analysis because I think it would have revealed a lot as well. But herein lies, I think, somewhat of the rub. As Professor Alesina discussed, the problem is not precisely Europe's present, which after all is quite wonderful, particularly when considered in contrast to the sea of human misery that is essentially its past, and the presence of a lot of the rest of the world.

Nearly everyone, both as nations and individuals, are sometimes literally dying to get into Europe. And it turns out, actually, that even the development economists are desperate to get into Europe.

(Laughter)

And I would submit that it's not an accident that Ales Tudu would rather spend his time in Paris rather than "Moogu-Doogu".

There is really a unique combination in Europe of a broad liberal market with decentralized government which allows for a lot of experimentation. And these are, arguably, as a result the most successful nations in the world. And for this reason for every book of doom about Europe there is one predicting that Europe is ascendant, that it will rule the 21st century, to quote one example.

I think Europe's problem, ultimately, as Professor Alesina asserts, is its future, and this problem comes not from Europe itself, although all these dysfunctions are there, but at its root it comes from competition with others from the U.S. most particularly, but also from China, from a globalized world that will, in essence, render Europe's wonderful model or perhaps some of its many models unsustainable unless there is major reform.

This is a significant distinction, I think, because it means that Europeans don't fundamentally want change; it is being thrust upon them. It also means, however, that whether or not this change will be thrust upon them, I should really say to what degree depends not only on the degree to which Europe is failing to keep up, but others' relative success. And Professor Alesina, I think, rightly focuses primarily on the U.S. as a comparator. But I might point out that it's far from clear that the U.S. model is sustainable for reasons that are very different than the ones that are outlined in this book.

I think for the U.S. the problem is not enough social protection which is leading to rampant insecurity and increasing political demands for protection that the government cannot or will not satisfy. These are, of course, fundamentally political problems and therefore insoluble. But if the American experience is a guide, reconciling the conditions necessary for high growth with sufficient social protections to mute populist calls for protectionism and xenophobia is no easy trick. So this model needs to be set up against the European model, I think, to understand which one is more sustainable.

A relative perspective, I think, allows us also to focus on the purposes of the welfare state. It helps to remember that the creation of the welfare state in Europe and in America was not some socialistic experiment. It was a liberal effort at a barrier against the return of depression, civil war, extremist politics that had somewhat plagued the 20th century, the early 20th century.

In essence, what the welfare state bargain was, that the relief of economic insecurity was a method for buying social peace. And I think the point here is that it wasn't primarily about injustice. As Professor Alesina mentioned, injustice is not the issue that the welfare state helps to solve; many times it makes it worse. It was about insecurity.

European politics are always navigating -- and American politics, I would argue -- between the twin shoals of growth and protecting people from insecurity. I'm not personally fully convinced, looking at the American experience -- indeed looking at my own student loan payments, my own crappy health insurance, and the at-will job contract I have at the Brookings Institution -- an institution which I might add is deeply dependent on the vagaries of the stock market. No one can explain to me that there isn't a fairly inexorable tradeoff here between the high growth and high productivity model that we've been able to establish here and the deep economic insecurity that even I feel.

This implies a yet more insoluble political problem. The insider-protected groups the Professor Alesina rightly said are blocking European reform are really the aspirations of most Europeans to join those groups, because they provide something that everyone really wants -- I would argue everywhere -- but can very rarely obtain, which is this level of economic security.

It's very interesting to look at the French riots last year -- not the "banlieu" riots but the downtown riots, which were, in essence, a protest against an effort to whittle away at insider protection, but the protesters were on one level the insiders, but also the outsiders not because they were a member of those groups but because they aspired to join them. And they were as pissed off that they might be taken away as the people who actually held them.

I would say that this quest for economic insecurity [sic], even though it does create this insider/outsider divide is a legitimate aspiration and a universal one, even if it's not always compatible with the greatest wealth generation. I think Professor Alesina rightly points in many places in the book the fact that these goals may be more reconcilable than is commonly assumed if we implement some of the smarter policies that he's talking about. I'm convinced in part, but I'm not really sure, ultimately, because what is clear is that no country has done so adequately; that no country with the possible exception of very small Nordic countries has adequately achieved both these goals -- certainly not this one.

And the issue, having said that, the issue of whether the growth inadequacies at the heart of Europe will ultimately prove more or less sustainable than America's social protection inadequacies remains, I think, an open one and is ultimately, because it is a competitive dynamic, is ultimately the question on which a lot of this will turn.

So that gets me, I guess, to, finally to my second point to ask for more from Professor Alesina. The question of which of these models is more sustainable, which again I think is the proper question, depends somewhat on the capacity for reform, the relative capacity for reform Professor Alesina ably documents the many blockages for reform that exist at -- in Europe at both the national and EU levels. And anybody who has sat in on an EU meeting will understand these instantly. Certainly, with 27 countries at the table, if everybody talks for 10 minutes, that's four hours, and I can assure you that a European bureaucrat cannot clear his throat in 10 minutes.

(Laughter)

But I think that such blockages, you know, more or less are endemic to complex societies in which power is quite appropriately diffused. And that's true of this society, too, and we could have done a rather scathing description of the various political institutional blockages to reform in this society. So what is somewhat surprising in this context is just how much reform there has been in Europe in the last few years, especially if you think about it given how wonderful their present is and given how generally satisfied European populations are.

I think the problem with being wealthy, the old quip has it is that you can lose money for a long time without really noticing it. And Europe I think, as you mentioned, has been losing money for awhile, but poverty has certainly not set in. And yet despite that, despite, I would argue, in the absence of a really severe crisis it has made many efforts toward reform, some effective, many inadequate, a few probably counterproductive. But one can detect a growing realization that some readjustment is necessary.

I think in the United States we are, let's say, much earlier on in that process if we're moving in that direction at all. And I think particularly -- and Professor Alesina mentioned this at little bit at the end, so he preempted a few of my remarks -- this is particularly evidence I think -- well, in the first instance -- well, I mean to back up what one of the strengths that Europe has in the reform process is its diversity. There are an extraordinary number of models, and to some extent they represent laboratory experiments for various types of reform.

And a lot of these models have been quite successful. The Nordics have been mentioned, the -- Ireland, of course. One could argue even Spain and certainly the U.K., a lot of -- the primary laggards have been the core countries: Germany to some extent, but especially France and Italy. What we see in the past few years, as was just mentioned, is that France, which is really the ideological home of a lot of these blockages, and Italy, which is the -- well, leads in implementation of the blockages -- have adopted a somewhat different rhetoric and have been moving so much toward reform.

And Sarkozy, I think, is an interesting example of this. Certainly, in rhetoric he is a lot of what Professor Alesina is looking for, at least in the areas of need for increased work. That seems to have been taken almost directly from your book; also in the area of immigration reform.

Obviously, he had a much more "jure rejiste" view of the economy than I think Professor Alesina would prefer, but this may reflect his ideology; but I think it also reflects his understanding of the political realities in France, that he makes efforts to open up the labor market and to implement a degree of reform far short of what his advisors will want but far more than what the population may be comfortable with. He's going to have to continue to provide or at least give the allusion of providing for economic security.

He's an interesting figure, I think, particularly because he seems very attuned to these political realities. So whereas previously French leaders in particular would be interested in mouthing the rhetoric of reform but actually not interested in implementing it, Sarkozy seems a little bit more interested in mouthing some of the rhetoric of Irizen, but then implementing the reforms. But as was pointed out, it's early days.

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