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MEDIOCRE GROWTH IN THE EURO AREA: IS GOVERNANCE PART OF THE ANSWER?

JEAN PISANI-FERRY





Mediocre growth in the euro area: Is governance part of the answer?
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alleviate the short-term costs through macroeconomic support. However, monetary union has had the twin effects of removing the threat of exchange crises and of limiting the potential for macroeconomic support (because monetary policy cannot react to policies undertaken in a single country whilst the Stability and Growth Pact restrains the extent of budgetary support). In a way, an environment with neither sticks nor carrots has contributed to creating a 'reform trap'. This is especially worrying, as

judgement. However, economic judgement can easily be a pretext for purely political compromises. For this not to happen, decision does not only need to be based on explicitly stated principles. It must also be supported by reliable and independent

Figure 1: A representation of the policy mix in four economies

Graphique 5: Orientation du policy mix, 1999-2004

