© OECD, 2003.

© Software: 1987-1996, Acrobat is a trademark of ADOBE.

All rights reserved. OECD grants you the right to use one copy of this Program for your personal use only. Unauthorised reproduction, lending, hiring, transmission or distribution of any data or software is prohibited. You must treat the Program and associated materials and any elements thereof like any other copyrighted material.

All requests should be made to:

Head of Publications Service,
OECD Publications Service,
2, rue André-Pascal,
75775 Paris Cedex 16, France.

© OCDE, 2003.

© Logiciel, 1987-1996, Acrobat, marque déposée d'ADOBE.

Tous droits du producteur et du propriétaire de ce produit sont réservés. L'OCDE autorise la reproduction d'un seul exemplaire de ce programme pour usage personnel et non commercial uniquement. Sauf autorisation, la duplication, la location, le prêt, l'utilisation de ce produit pour exécution publique sont interdits. Ce programme, les données y afférantes et d'autres éléments doivent donc être traités comme toute autre documentation sur laquelle s'exerce la protection par le droit d'auteur.

Les demandes sont à adresser au :

Chef du Service des Publications,
Service des Publications de l'OCDE,
2, rue André-Pascal,
75775 Paris Cedex 16, France.

Assessment and recommendations

Key macroeconomic and structural policy challenges

Entering its fifth year of existence, the European Economic and Monetary Union (EMU) has met major headwinds. At the advent of the single currency the euro area experienced solid economic growth, with unemployment falling and public finances rapidly improving. However, a number of structural problems were exposed with the cyclical downturn since 2001, from which the area is recovering only hesitantly. The challenges facing policy makers at present are both of a short-run and medium-run nature. Policy makers are currently grappling with sluggish demand. Responding to this challenge, monetary policy has been eased and fiscal policy reacted through the automatic stabilisers. However, the room for manoeuvre was reduced by lingering inflationary pressures and earlier insufficient fiscal adjustment in several member states. Meanwhile the euro exchange rate has appreciated significantly. Over the medium term, the Community has set ambitious targets and a vast programme for enhancing the performance of labour, product and financial markets. This programme needs to be pursued with vigour, thereby raising the odds of large gains in trend growth and jobs while making it easier to achieve sound fiscal positions.

The downturn proved longer than initially expected

Growth fell from a 3½ per cent peak in 2000 to 1 per cent in 2002. The bursting of the global stock market bubble, the unsettling of corporate balance sheets and uncertainty about the timing and strength of the recovery inhibited a swift recovery of business investment, while bleaker job prospects and geopolitical uncertainties affected consumer confidence and spending. Macroeconomic policies have provided some offset, as interest rates have been cut in several steps since 2001, with the cuts contingent on falling inflation concerns, while the fiscal stance has been mildly

© OECD 2003

expansionary since 2000. The latter reflected fiscal action by some countries that had achieved sufficient room for manoeuvre, but also by countries that had not yet done so and found themselves in breach of the commitments stemming from the Stability and Growth Pact and the Treaty. While the shocks have been largely global, the euro area has shown less resilience to these shocks than many other parts of the OECD area. This may reflect structural and institutional rigidities, which have inhibited a brisk rebound in domestic demand. While net external trade picked up some of the slack, this favourable influence is now vanishing as the exchange rate has recovered its earlier losses.

Unemployment has risen little so far, while inflation pressure is waning

Despite sub-par growth, the unemployment rate has picked up little to date. Since bottoming in 2001, it has risen by ¾ of a percentage point to 8¾ per cent. This could indicate a better labour market performance, but could also mask significant labour hoarding. At the same time real product wages decelerated only little during the downturn, which suggests that wage resistance against adverse price shocks remains an important feature of wage formation systems in the euro area. However, with slack in product markets growing, profit margins falling and the currency appreciating, inflation has come down to 1.9 per cent in May, after hovering in the 2 to 3 per cent range since mid-2000.

The recovery is set to be muted

The recovery is likely to face headwinds for some time. The Gulf conflict weighed heavily on consumer and business sentiment and oil prices have been high and volatile. The euro has appreciated by more than 20 per cent in effective terms from its low in late-2000, and this has eased inflationary pressure. Hence, with the exchange rate assumed to remain strong the OECD assumes the European Central Bank (ECB) to keep its policy rate on hold after the series of cuts in the spring of 2003 until mid-2004. Meanwhile, fiscal policy, which is being constrained by earlier slippage, will provide no further stimulus unless it departs further from the requirements of the Stability and Growth Pact. The OECD's assessment is that activity is likely to remain subdued in 2003, but could accelerate to potential growth of some 2 per cent in 2004. The unemployment rate would peak in 2003, and then fall only slightly to about 8½ per cent

© OECD 2003

in the second half of 2004. With the negative output gap remaining large and temporary factors waning, inflation is expected to decline to 1½ per cent in 2004.

Downside risks predominate

Uncertainties around the projection are large. On the positive side, oil prices could fall by more than projected, following the end of the Gulf conflict, thus lowering inflation and boosting household incomes. Another positive factor is that there could be a quicker than projected dissipation of uncertainty, leading to a stronger recovery in confidence and a more rapid unwinding of precautionary savings, thus supporting domestic demand more than anticipated. However, there are also major downside risks, both on the internal and external side, with poor GDP growth in the first quarter of 2003 not boding well in this regard. A possible wave of company restructuring, with a labour shake-out and rising unemployment, could depress consumer confidence further. Fiscal tightening may be stronger than embedded in the OECD projections if several countries take action to respect their Stability and Growth Pact obligations. This would usually be expected to adversely affect demand in the short run. However, meeting the commitments would enhance the credibility of the Stability and Growth Pact and of fiscal policy in general. This may spur confidence among consumers and investors, with positive implications for growth over the medium term and possibly even in the short term. Moreover, fiscal consolidations appear to be more successful if they include spending reforms that sharpen incentives to work and invest. On the external side, the upswing in the US economy may stall. If, moreover, financial markets consider the widening US current account deficit unsustainable in the medium run, a further appreciation of the euro exchange rate *vis-à-vis* the dollar could occur. The euro area economy could perhaps weather one or another of these downside risks, given the scope for monetary policy to respond. However, coping with a combination of several adverse shocks would be very challenging for policy makers.

Temptations to ease fiscal policy in the upswing should have been resisted

The Stability Programmes presented by the member countries on the eve of the 2001 downturn envisaged balanced budgets to be broadly achieved by 2002, but this goal has been put off by at least four years. Overruns were widespread, but they were particularly large in the three

© OECD 2003

major countries and Portugal. Portugal breached the deficit limit of 3 per cent of GDP enshrined in the Maastricht Treaty already in 2001. Germany and France followed suit in 2002, with Italy also approaching the danger zone. Slippage against the targets was largely rooted in the fiscal easing that was initiated at the peak of the cycle in 2000 with knock-on effects also in 2001 and 2002. These countries failed to comply with the commitments of the Stability and Growth Pact, which required them to move towards and then to stay close to fiscal balance over the medium term. Slippage was possible in part because of the almost exclusive focus on nominal (as opposed to cyclically-adjusted) budget balances which reinforced the asymmetric nature of the Pact, with constraints biting in downswings but not in upswings. But targets were also missed because of an overly optimistic assessment of underlying growth potential. These countries thus failed to take out insurance against a cyclical downturn. This is regrettable for at least two main reasons. First, it means that automatic stabilisers were not allowed to work fully during the upswing. Hence, fiscal policy failed to smooth the cycle. Second, a precious window of opportunity to build up a war chest against the looming ageing challenge was missed.

Corrective action is required alongside with structural reform

These difficulties prompted the Commission to propose a series of measures to strengthen the implementation of the Stability and Growth Pact. The spring 2003 European Council meeting subsequently endorsed the following principles:

- The close-to-balance or in surplus rule should apply in cyclically-adjusted terms each year, not just at a medium-term horizon.
- Countries that have yet to comply with this requirement will be committed to consolidate their fiscal position by at least ½ per cent of GDP per year in cyclically-adjusted terms.
- Pro-cyclical budgetary policies should be avoided, especially when growth conditions are favourable.
- The assessment of the conformity of the Stability and Convergence programmes with the close-to-balance or in surplus requirement should take account of the long-term sustainability of public finances, necessary

© OECD 2003

safety margins *vis-à-vis* the 3 per cent threshold and quality of the public finances.

– The pace of decline in public debt plays an important role in the budgetary surveillance, especially in highly indebted countries. In conformity with the Treaty provisions, the excessive deficit procedure should contribute to ensuring a satisfactory pace of debt reduction.

While this refined framework appears to be sensible, it will only work if governments exercise "ownership" over this set of rules. The price of pursuing fiscal tightening before the recovery is fully underway is worth paying to rectify insufficient adjustment in the past and to enhance the credibility of the macroeconomic policy framework. Meanwhile, pursuing a structural reform agenda to boost potential growth would make it considerably easier to achieve sound fiscal positions. Indeed, the fact that most smaller euro area countries – which grew on average by 3 per cent *per annum* since the advent of the common currency as opposed to 1¾ per cent for the three major countries – easily met the close-to-balance or in surplus rule, provides evidence for this.

The OECD projections assume that interest rates will stay on hold until the recovery firms

The challenges facing monetary policy at the current juncture are complex. Policy interest rates were cut by a cumulative 225 basis points since May 2001 to 2½ per cent in March 2003. Stress in financial markets has eased somewhat recently, but the need to restructure corporate balance sheets may slow down the recovery of investment. Buoyant credit to households, associated with the property cycle and spurred by low interest rates, has so far provided some offset, but the persistent overshooting of the price stability objective of keeping inflation below 2 per cent over the medium run has limited the leeway for more aggressive monetary policy easing. However, helped by the appreciation of the euro, moderating oil prices and significant slack in economic activity, inflation pressure has been receding recently, allowing the ECB to lower interest rates by a further 50 basis points in June 2003. Against this backdrop, policy-determined interest rates are likely to remain on hold until there is firm evidence of sustained recovery. If evidence of further weakening of economic activity surfaces, moderating inflationary pressures further, the ECB should stand ready to

© OECD 2003

reduce its key interest rates again. At the same time, the ECB should continue to be vigilant to upside risks.

The monetary policy framework has been clarified

Since the adoption of the euro four and a half years ago the framework and *modus operandi* of monetary policy have evolved markedly. The operational definition of price stability, – a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) below 2 per cent over the medium term – has in practice provided room to accommodate temporary price shocks. In the May 2003 review of its policy strategy, the ECB reiterated the definition of price stability, but clarified that in the pursuit of price stability it aims to maintain inflation rates close to 2 per cent over the medium term in line with its past conduct of policy. This clarification has been made to underline the need to provide a sufficient safety margin to guard against the risks of deflation. It also addressed the issue of a possible measurement bias in the HICP and the implications of inflation differentials within the euro area. Moreover, the review clarified the two-pillar framework, emphasising the role of monetary analysis as a means of cross-checking, from a medium to long-term perspective, the indications of risks to price stability in the short to medium-term stemming from economic and financial market developments. These clarifications are welcome because they bolster the resilience of the framework against deflation risks and further underpin market expectations of inflation rates staying close to 2 per cent.

The Lisbon targets now look difficult to achieve

Reaching the strategic goal set at the Lisbon summit in 2000 to turn the European economy into "the most competitive and dynamic knowledge-based economy in the world" by 2010 now looks very challenging, and requires that greater progress is made in implementing the structural reform agenda already laid out and attention be given to what additional efforts may be required. The 1993-2000 upswing partly reflected the absorption of the large amount of cyclical slack created in the recession of the early 1990s, while potential output growth picked up only a little, contrary to the United States. Although the implementation of the Single Market Programme had positive effects, its implementation has been painfully slow in some areas, innovative capacity improved little and labour market performance, while better in recent years, could still be enhanced considerably. The

© OECD 2003

OECD's medium-term scenario suggests that, on unchanged policies, a growth gap between the United States and the euro area will persist. Labour productivity would grow by 1½ per cent per annum over the period 2003-08, as compared with 2¼ per cent for the United States. With structural unemployment declining rather little and remaining, at 7½ per cent, 2½ percentage points above the US rate, trend GDP growth would be 1¾ per cent for the euro area in per capita terms, as compared with 2¼ per cent for the United States. Looking further ahead, with ageing eventually leading to a decline in the working age population, growth can only be sustained by mobilising the participation of those who would otherwise not be employed, by reversing the trend decline in hours worked or by reforms that boost productivity growth. In this context, the potential gains from creating a truly integrated and competitive European market, increasing business dynamism, investing in knowledge and innovation and pushing ahead with labour market reforms could be very large.

Remaining barriers to internal trade should be removed

Ten years after it was launched, the single market has partly fulfilled its ambition of fostering European integration; this has been reflected in converging prices of traded goods, heightened competition in manufacturing and surging trade and investment flows. But this process has some way to go. Due partly to regulation and taxation factors, the service sectors are not well integrated and substantial barriers remain. These concern the lack of mutual recognition for business licenses and diplomas in many services and a range of sector specific issues, such as the current system of airport slot allocation, which still hampers entry. Liberalisation moves should be more ambitious, especially in the postal and railway sectors. Moreover, integration of financial markets, while progressing, is very uneven across market segments. Several Directives included in the Financial Services Action Plan still have to be adopted, including the long-overdue Take-over Bid Directive, while further efforts should focus on removing national obstacles that hamper cross-border trade and market entry. Finally, the regulatory framework of the Community has fallen considerably short of the OECD Council's recommendations on improving the quality of government regulation. For instance, a regulatory impact assessment was not mandatory until recently and

© OECD 2003

implementation issues need to be tackled more thoroughly. Steps have been taken to improve the situation. In sum, while the single market programme is advancing, the pace is slow.

Competition policy transcends national interests

Vigorous competition in goods and services markets is of particular importance for growth and consumer welfare and is the topic of the special chapter of this *Survey*. Competition ensures that productivity gains are passed through into lower consumer prices and input prices for producers, reduces rents accruing to dominant incumbents and raises the pressure on businesses to allocate and utilise resources in the best way. And it spurs companies to continuously invest in producing new and better products, while also improving production processes. The Community framework for competition policy aims at ensuring a level playing field for competing firms and as such is one of the pillars of the single market. It is one of the key policy areas in the remit of the Community and covers antitrust, liberalisation, state aid and merger control. Also, further trade liberalisation would enhance competition and should be pursued in the current international trade negotiations to capture the sizeable remaining gains from freeing trade. Further progress needs to be made in improving market access for agricultural commodities in developed countries, in particular for developing countries, while reducing, with a view to phasing out, all forms of export subsidies and other trade distorting subsidies in agriculture.

Keep the instruments of competition policy under review

The Community's competition rules, which apply whenever anti-competitive practices have an implication for cross-border trade, are enforced primarily by the Commission's Directorate General for Competition, and complement national competition legislation. Reforms have been adopted recently with the goal of increasing the role of national authorities in the enforcement process. The Directorate General has a wide-ranging toolkit and has reformed it recently, for instance by increasing internal scrutiny and transparency in the handling of individual cases, while strengthening the Commission's investigatory powers. In view of the recent and ongoing reforms, it is suggested to keep the following under review:

– Fines for anti-competitive behaviour are already high, but their deterrent effect should be assessed.

© OECD 2003

– The leniency programme is already very attractive, but options to make it even more attractive could be explored in the light of the experience with the programme and similar measures taken by member states.
– The effectiveness of the reforms to improve checks and balances in the merger control process should be reviewed.
– Private suits should be encouraged in a well-balanced legal framework that avoids their strategic use by competitors to hamper competition. This could free up resources in the competition authority.

Further, Community action to implement a single market in services should be strengthened and supported by competition policy, especially at the national level. Measures should be taken to facilitate a long-term focus in planning and areas where the biggest gains can be expected should receive priority. The Commission is currently studying this issue. There would also seem to be a potential for large gains from raising competition in public procurement. An important task for the Commission services is to make the broadly spread gains from competition policy more visible, to counter the often fierce opposition of entrenched interests to a greater degree of competition.

Liberalisation of network industries should be stepped up

Competition policy is complemented by, and partly overlapping with, the regulation of newly liberalised network industries. Despite the EU's commendable efforts in this area, competition is still undermined by dominant incumbents in some sectors. Price declines stemming from the liberalisation of network industries have become smaller, while new entrants no longer seem to gain market share from the incumbents in some markets. Indeed, in mobile telephony dominant incumbents have been able to consolidate their position. At the same time, the dispersion in prices and the price level differences with other countries suggest that the full scope for efficiency gains has not yet been fully exploited.

Innovation should be encouraged

A raft of indicators shows that innovation activity in the euro area is lagging the most advanced OECD countries. For

© OECD 2003

instance, research and development (R&D) spending, as a share of GDP, is relatively modest and venture capital investment is only a third of the OECD average, while the export share of high-tech products is less than two-thirds of the US level. An effective EU-wide system of protecting intellectual property rights has been long overdue. The recent adoption of a "Community Patent" is a major step forward, but the estimated cost of patenting, though reduced significantly by this initiative, should still be cut by half to match costs in other major OECD economies. Raising R&D spending to the target set by the 2002 Barcelona Council of 3 per cent of GDP would imply a doubling of spending from the current level. However, it would seem to be more urgent to raise the effectiveness of R&D expenditure as opposed to its level. This requires policies that improve the framework conditions, for instance, concerning the venture capital market to encourage risk taking. Moreover, the current set-up has failed to foster research specialisation at the European level, and hence the scope for reaping scale economies remains huge.

Labour markets need to be reformed further

Labour markets are in urgent need of reform. Notwithstanding some progress made since the mid-1990s, the structural rate of unemployment was still as high as 8 per cent in 2002 on OECD estimates, leaving it several percentage points above the best performing OECD countries. Meanwhile, skill mismatches have increased and "dual" labour markets have developed, which may provide a stepping stone for certain categories of workers but also risks trapping them in poorly paid or unsteady jobs. While the Community has only limited competence on labour market policies, the 2000 Lisbon European Council and the 2001 Stockholm European Council set ambitious targets for the Union as a whole. These include targets for the overall employment rate (70 per cent in 2010 compared with 64 per cent currently) and the employment rate for older workers (50 per cent compared with 38½ per cent currently). So far, the extent of the reforms in the pursuit of these targets has varied greatly across member states and on current trends and policies the risk is high that targets will not be met. Reform – with

© OECD 2003

priorities depending on specific conditions in different countries – should focus on:

- *Making work pay*, by reducing financial disincentives to work stemming from tax and benefit systems while reducing incentives to retire early.
- *Improving the effectiveness of active labour market policies*, by giving more weight to job matching by the public employment services as opposed to subsidised jobs.
- *Enhancing labour mobility*, to smooth the absorption of "asymmetric shocks" affecting certain regions, sectors or occupations. This requires EU-wide initiatives, concerning, for instance, the mutual recognition of skill certification or the portability of pension rights – all areas where scope for progress is large. Moreover, mobility within individual euro area countries also needs to be encouraged.
- *Reforming wage setting practices*, allowing local market clearing and the removal of indexation mechanisms to ease real wage resistance against adverse price shocks.
- *Easing employment protection legislation*, to encourage job creation and facilitate flexible adjustment to changing economic conditions, thereby also reducing labour market segmentation.

The potential gains from structural reform are large

Simulations with OECD's Interlink model suggest a strong impact of product and labour market reforms on overall economic performance. A reform of product market regulation to make it as competition-friendly as in the United States could boost the level of multi-factor productivity by 2 per cent by the end of this decade. Moreover, based on conservative estimates, the combined effect of labour and product reforms could slash structural unemployment and raise labour market participation, resulting in considerably faster employment growth. Such reforms might boost potential *per capita* growth of the euro area from 1¾ to 2¼ per cent, the same as the US rate. Such a performance would imply much improved fiscal positions allowing a sizeable reduction in the tax burden. At the same time, lower inflation would allow an easier monetary stance.

© OECD 2003

Summary

To sum up, the agenda for high growth and employment adopted at the Lisbon summit in 2000 seems all the more germane now that the euro area has been faced with an unexpected protracted slowdown. While the specific targets set at this summit now look very challenging to realise, a radical shift in attitudes toward structural reform would provide the key to achieving the broader objectives set out. The near-term economic situation remains unsettled. Although the labour market has remained relatively resilient to date, this may not be sustained for long as the recovery is still meeting headwinds and downside risks are present. In the short run, there will be no relief from fiscal policy, which will need to correct earlier insufficient adjustment. However, monetary policy has been significantly eased as inflationary pressures have been receding. If evidence of further weakening of economic activity surfaces, moderating inflationary pressures further, the ECB should stand ready to reduce its key interest rates again. At the same time, the ECB should continue to be vigilant to upside risks. At this juncture it is therefore all the more crucial that the vast structural reform agenda be pursued with vigour. Remaining barriers to fully achieving the internal market should be removed – notably in the service sector – competition and innovation should be encouraged, and the flexibility of labour markets should be enhanced. The Community's regulatory framework should be improved, which would reduce red tape and lead to a better implementation of Community-wide regulations. Further liberalising trade would further enhance competition and lead to sizeable welfare gains. The potential gains from structural reform appear to be very large, and would facilitate the pursuit of a multitude of policy goals, including price stability, sustainable public finances in the face of population ageing, stronger growth and full employment.

© OECD 2003

Glossary of acronyms

ALMP	Active labour market policy
BEPG	Broad economic policy guidelines
CAP	Common agricultural policy
DG	Directorate general
DG Comp	Directorate general for competition
EC	European Community
ECA	European competition authorities
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EDP	Excessive deficit procedure
EES	European employment strategy
EMU	Economic and Monetary Union
EPL	Employment protection legislation
EU	European Union
EUR	Euro
FSAP	Financial services action plan
g	Gram
GATS	General Agreement on Trade in Services
GDP	Gross domestic product
HICP	Harmonised index of consumer prices
ICT	Information and communication technology
IPM	Interactive policy making
M3	Broad money
MFN	Most favoured nation
MRP	Mutual recognition principle
NCB	National central bank
NRA	National regulatory authority
NTB	Non-tariff barrier
PES	Public employment services
PPP	Purchasing power parity
PWD	Posting of workers directive
R&D	Research and development
S&T	Science and technology
SGP	Stability and growth pact
SLIM	Simpler legislation for the internal market
SMP	Single market programme
SOLVIT	Internal market problem solving network
UK	United Kingdom
UMTS	Universal mobile telephone system

© OECD 2003

US	United States
USD	United States dollar
USPTO	United States Patent and Trademark Office
VAT	Value added tax
WTD	Working time directive

© OECD 2003

Bibliography

Adam, K., T. Jappelli, A. Menichini, M. Padula and M. Pagano (2002),
Study to Analyse, Compare, and Apply Alternative Indicators and Monitoring Methodologies to Measure the Evolution of Capital Market Integration in the European Union, CSEF – Centre for Studies in Economics and Finance, Department of Economics and Statistics, University of Salerno, January, *http://europa.eu.int/comm/internal_market/en/update/economicreform/020128_cap_mark_int_en.pdf*

Adnett, N. and S. Hardy (2000),
"Reviewing the Working Time Directive: Rationale, Implementation and Case Law", Stafforshire University Business School, *Discussion Paper*, No. 2000/08, *www.staffs.ac.uk/schools/business/economics/papers/ec2000-08.pdf*

Aghion, P., N. Bloom, R. Blundell, R. Griffith and P. Howitt (2002),
"Competition and Innovation: An Inverted U Relationship", The Institute for Fiscal Studies, *Working Paper*, No. 2002/04, *www.idei.asso.fr/Commun/Conferences/Internet/OSS2002/Papiers/Aghion.pdf*

Ahearne, A., J. Gagnon, J. Haltmaier and S. Kamin (2002),
"Preventing Deflation: Lessons from Japan's Experience in the 1990s", Board of Governors of the Federal Reserve System, *International Finance Discussion Papers*, No. 729, *www.federalreserve.gov/pubs/ifdp/2002/729/default.htm*

Allen, C., M. Gasiorek and A. Smith (1998),
"European Single Market: How the Programme has Fostered Competition", *Economic Policy*, No. 27.

Association of European Airlines (1998), *Benchmarking of Airport Charges*, Information Package, February, *www.aea.be*

Audet, D. (2002),
"Government Procurement: A Synthesis Report", OECD *Journal on Budgeting*, Vol. 2, No. 3.

Bachnoff, T. (2002),
"Institutions, Inertia and European Union Research Policy", *Journal of Common Market Studies*, Vol. 40, No. 1.

Bartelsman, E., A. Bassanini, J. Haltiwanger, R. Jarmin, S. Scarpetta and T. Schank (2003),
"The Spread of ICT and Productivity Growth: Is Europe Really Lagging Behind in the New Economy?" in D. Cohen, P. Garibaldi and S. Scarpetta (eds.), *The ICT Revolution: Productivity Differences and the Digital Divide*, Fondazione Rodolfo Debenedetti, forthcoming.

Barth, J., G. Caprio and R. Levine (2001),
"The Regulation and Supervision of Banks Around the World: a New Database", World Bank Research, Bank Regulation and Supervision Database, World Bank, *http://wbln0018.worldbank.org/html/FinancialSectorWeb.nsf/SearchGeneral?openform&Banking+Systems&Databases*

© OECD 2003

Bassanini, A. and E. Ernst (2002),
"Labour Market Institutions, Product Market Regulation, and Innovation: Cross-Country Evidence", *Economics Department Working Papers*, No. 316, OECD, Paris, *http://appli1.oecd.org/olis/2002doc.nsf/linkto/eco-wkp(2002)2/$FILE/JT00119533.pdf*

Bassanini, A. and S. Scarpetta (2001),
"The Driving Forces of Economic Growth: Panel Data Evidence for the OECD Countries", OECD *Economic Studies*, No. 33, *www.cf.ac.uk/carbs/econ/matthewsk/OECDEconSt33a.pdf*

Beaufoy, G. (2000),
"The Environmental Impact of Olive Oil Production in the European Union: Practical Options for Improving the Environmental Impact", *European Forum on Nature Conservation and Pastoralism and Asociación para el Análisis y Reforma de la Política Agro-rural*, *http://europa.eu.int/comm/environment/agriculture/pdf/oliveoil.pdf*

Begg, D., F. Canova, A. Fatás, P. de Grauwe and P.R. Lane (2002),
Monitoring the European Central Bank, Update 2002, CEPR.

Bernanke, B. S. and M. Gertler (1999),
"Monetary Policy and Asset Price Volatility", *Federal Reserve Bank of Kansas City, Economic Review*, Fourth Quarter.

Bertaut, C. C. (2002),
"Equity Prices, Household Wealth, and Consumption Growth in Foreign Industrial Countries: Wealth Effects in the 1990s", *Board of Governors of the Federal Reserve System, International Finance Discussion Papers*, No. 724, April, *www.federalreserve.gov/pubs/ifdp/2002/724/default.htm*

Boone, L. and N. Girouard (2002),
"The Stock Market, the Housing Market and Consumer Behaviour", OECD *Economic Studies*, No. 35, 2002/2, OECD, Paris.

Borio, C. and P. Lowe (2002),
"Asset Prices, Financial and Monetary Stability: Exploring the Nexus", *Paper presented at the Federal Reserve Bank of Chicago and World Bank Group Conference on "Asset Price Bubbles"*, Chicago, April.

Bottasso, A. and A. Sembenelli (2001),
"Market Power, Productivity and the EU Single Market Programme: Evidence from a Panel of Italian Firms", *European Economic Review*, Vol. 45.

Brand, C. and N. Cassola (2000),
"A Money Demand System for Euro Area M3", ECB *Working Paper Series*, Nr. 39, Frankfurt, November.

Brand, C., D. Gerdemeier and B. Roffia (2002),
"Estimating the Trend of M3 Velocity Underlying the Reference Value for Monetary Growth", ECB *Occasional Paper Series*, No. 3, Frankfurt, May.

Brodaty, T., B. Crépon and D. Fougère (2001),
"Using Matching Estimators to Evaluate Alternative Youth Employment Programs: Evidence from France, 1986-1988", in M. Lechner and F. Pfeiffer (eds), *Econometric Evaluation of Labour Market Policies*, Physica, Heidelberg.

Bruggeman, A., P. Donati and A. Warne (2003),
Is the Demand for Euro Area M3 Stable?, European Central Bank, Frankfurt, May.

Bruno, C. and F. Portier (2002),
"Tax Pot Episodes in OECD Countries", *Journal of the Japanese and International Economies*, Vol. 16.

© OECD 2003

Bryan, M.F., S.G. Cecchetti and R. O'Sullivan (2002),
"A Stochastic Index of the Cost of Life: An Application to Recent and Historical Asset Price Fluctuations", *Paper presented at the Federal Reserve Bank of Chicago and World Bank Group Conference on "Asset Price Bubbles"*, Chicago, April.

Burnside, A. (2002),
"Comments on Reforming European Merger Review: Targeting Problem Areas in Policy Outcomes", *Journal of Industry, Competition and Trade*, Vol. 2, No. 4, *http://ipsapp009.kluweronline.com/content/getfile/4852/5/2/fulltext.pdf*

Buti, M., C. Martinez-Mongay, K. Sekkat and P. van den Noord (2002),
"Automatic Stabilisers and Market Flexibility in EMU: Is There A Trade-Off?", *Economics Department Working Papers*, No. 335, OECD, Paris.

Buti, M. and A. Sapir (2002),
"EMU in the Early Years: Differences and Credibility", in M. Buti and A. Sapir (eds.), *EMU and Economic Policy – Challenges in the Early Years*, Edward Elger.

Buti, M. and P. van den Noord (2003),
"Discretionary Fiscal Policy and Elections: the Experience of the Early Years in EMU", *Economics Department Working Papers*, No. 351, OECD, Paris.

Calza, A., D. Gerdesmeier and J. Levy (2001),
Euro Area Money Demand: Measuring the Opportunity Cost Appropriately, European Central Bank.

Cavelaars, P. A. D. (2002),
"Does Competition Enhancement Have Permanent Inflation Effects?", DNB *Staff Reports*, No. 92/2002, De Nederlandsche Bank, Amsterdam.

CESIFO (Center for Economic Studies of the Ifo Institute) (2002),
Report on the European Economy 2002, Munich, *www.cesifo.de/pls/portal30/docs/*FOLDER/IFO_PORTAL/CESIFO_INHALTE/PUBLICATIONS/EEAGREPORTS/FORUM_SPECIAL_2002/FORUMSPECIAL_GESAMT_2002.PDF

Cecchetti, S. G., H. Genberg and S.Wadhwani (2002),
"Asset Prices in a Flexible Inflation Targeting Framework", NBER *Working Paper*, No. 8970.

Cetorelli, N. (2002),
"Life-cycle Dynamics in Industrial Sectors. The Role of Banking Market Structure", Federal Reserve Bank of Chicago, *Working Paper*, 2002-26, *http://research.stlouisfed.org/conferences/policyconf/papers/Cetorelli.pdf*

De Grauwe, P. (2002),
"Challenges for Monetary Policy in Euroland", *Journal of Common Market Studies*, Vol. 40, Nr. 4.

Demirgüç-Kunt, A. and R. Levine (2001),
Financial Structure and Economic Growth: A Cross-Country Comparison of Banks, Markets, and Development, MIT Press, Cambridge, Massachusetts.

DTI (Department of Trade and Industry) (2001),
A World Class Competition Regime, White Paper, United Kingdom, *www.archive.official-documents.co.uk/document/cm52/5233/5233.htm*

Dolar, V. and C. Meh (2002),
"Financial Structure and Economic Growth", Bank of Canada Working Paper, No. 2002-24, *www.bankofcanada.ca/publications/working.papers/2002/wp02-24.pdf*

DKBR (Dresdner Kleinwort Benson Research) (1999),
EuroFocus: A Price for Europe, 9 June 1999.

© OECD 2003

DKBR (2000),
DKBR *Pricing Survey* 2000, 22 September.

Duarte, M. and A. Wolman (2002),
"Regional Inflation in Currency Unions: Fiscal Policy *versus* Fundamentals", *Paper presented at the International Research Forum on Monetary Policy*, ECB, July.

Économie Internationale (2002),
No. 89-90, 2002, La Documentation française, Paris.

EA (Electricity Association) (2003),
International Electricity Prices, Preliminary Issue 27, Electricity Association, London.

European Commission (First Report),
"First Report on the Application of the Principle of Mutual Recognition in Product and Services Markets", Working Document from the Services of the Commission, *http://europa.eu.int/comm/internal_market/en/goods/mrrapport_en.pdf*

European Commission, (1988),
"The Cost of Non-Europe in Public Sector Procurement", WS Atkins Management Consultants.

European Commission (1996),
"Price Competition and Price Convergence", *The Single Market Review Series*, Subseries V: Impact on Competition and Scale Effects, June 1996, Brussels.

European Commission (1998),
"The Economics of 1992", *European Economy*, No. 35, March.

European Commission (1999a),
"White Paper on modernisation of the rules implementing Articles 85 and 86 of the EC Treaty – Commission programme", No. 99/027, COM (1999)101, April 1999, *http://europa.eu.int/comm/competition/antitrust/wp_modern_en.pdf*

European Commission (1999b),
Report from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions on Concerted Action with the member States in the Field of Enterprise Policy, COM(99)569 Final.

European Commission (1999c),
"On the Application of the Principle of Mutual Recognition in Product and Services Markets", *Working Document from the Services of the Commission*, Brussels.

European Commission (2000a),
Internal Market Scoreboard, May 2000, Brussels, *http://europa.eu.int/comm/internal_market/en/update/score/score6.htm*

European Commission (2000b),
"Single European Sky", Report of the High-Level Group, DG for Energy and Transport.

European Commission (2000c),
"Review of SLIM: Simpler Legislation for the Internal Market", Communication from the Commission to the European Parliament and the Council, COM(2000)104 Final, February.

European Commission (2000d),
Review of SLIM: Background Material to the Communication of the Commission, Commission Staff Working Paper, COM(2000)104, SEC(2000)336.

European Commission (2000e),
"Growth Dividend: Tax Cuts Versus Deficit Reductions", *Report from the Commission to the Council and the European Parliament*, COM(2000)28 Final.

© OECD 2003

European Commission (2001a),
"Economic Reform: Report on the functioning of Community Product and Capital Markets", COM(2001)736, Brussels, *http://europa.eu.int/comm/internal_market/en/update/economicreform/cardiff02en.pdf*

European Commission (2001b),
"Action Programme on the Creation of the Single European Sky", Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee COM 2001/0123 Final, *http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexplus!prod!CELEXnumdoc&lg=en&numdoc=52001DC0123*

European Commission (2001c),
"Company Taxation in the Internal Market", Commission Staff Working Paper, SEC(2001)1681 and Com (2001) 582 Final, Brussels, *http://europa.eu.int/comm/taxation_customs/publications/official_doc/IP/ip1468/company_tax_study_en.pdf*

European Commission (2001d),
"Employment in Europe 2001 – Recent Trends and Prospects", DG Employment and Social Affairs, *http://europa.eu.int/comm/employment_social/employment_analysis/eie/2001_en.pdf*

European Commission (2001e),
Report on the Functioning of Community Product and Capital Markets, *http://europa.eu.int/comm/internal_market/en/update/economicreform/index.htm http://europa.eu.int/comm/internal_market/en/update/economicreform/docs/com-2002-743_en.pdf*

European Commission (2001f),
European Economy, Price levels and price dispersions in the European Union, Supplement A, July, *http://europa.eu.int/comm/economy_finance/publications/european_economy/2001/a2001_07_en.pdf*

European Commission (2001g),
European Commission (2001), Internal Market Scoreboard, May 2001, Brussels, *http://europa.eu.int/comm/internal_market/en/update/score/score8.htm*

European Commission (2001h),
"Green Paper on the Merger Review (Green Paper on the Review of Council Regulation (EEC) No 4064/89)", COM(2001) 745/6 Brussels, *http://europa.eu.int/comm/competition/mergers/review/green_paper/en.pdf*

European Commission (2001i),
"Economic Reform: Report on Product and Capital Markets", COM(2001) 736, Brussels, *http://europa.eu.int/comm/internal_market/en/update/economicreform/cardiff02en.pdf*

European Commission (2001j),
"European Transport Policy for 2010: Time to Decide", White Paper. Brussels, *http://europa.eu.int/comm/energy_transport/library/lb_texte_complet_en.pdf*

European Commission (2001k),
Commission Communication on the Elimination of Tax Obstacles to the Cross-border Provision of Occupational Pensions, COM(2001) 214; Bull. 4-2001.

European Commission (2002a),
"The State of the Internal Market for Services", Report From the Commission to the Council and the European Parliament Presented under The First Stage Of The Internal Market Strategy For Services, COM(2002)441 Final, *http://europa.eu.int/eur-lex/en/com/rpt/2002/com2002_0441en01.pdf*

European Commission (2002b),
"Issues to be Addressed in the Review of Council Directive 96/97/EC on Access to the

© OECD 2003

Groundhandling Market at Community Airports", Consultation Paper of the Directorate General for Energy and Transport, *http://europa.eu.int/comm/transport/air/rules/doc/consultation_groundhandling_en.pdf*

European Commission (2002c),
"Economic Reform: Report on the Functioning of Community Product and Capital Markets", Report from the Commission, *www.europa.eu.int/comm/internal_market/en/update/economicreform/docs/com-2002-743_en.pdf*

European Commission (2002d),
"Ten Years Internal Market without Frontiers", Internal Market Scoreboard, Special edition, No. 11, November, Brussels, *http://europa.eu.int/comm/internal_market/en/update/score/score11/score11-text_en.pdf*

European Commission (2002e),
"Employment in Europe 2002, Recent Trends and Prospects", DG Employment and Social Affairs, *http://europa.eu.int/comm/employment_social/news/2002/sep/employment_in_europe2002.pdf*

European Commission (2002f),
"Taking Stock of Five Years of the European Employment Strategy", Communication from the Commission to the Council, The European Parliament, The Economic and Social Committee and The Committee of the Regions, COM(2002)416 Final, *http://europa.eu.int/eur-lex/en/com/cnc/2002/com2002_0416en01.pdf*

European Commission (2002g),
"Draft Joint Employment Report 2002", Communication from the Commission to the Council, COM(2002)621 Final, *http://europa.eu.int/comm/employment_social/news/2002/nov/jer 2002_draft_en.pdf*

European Commission (2002h),
"The Report on the Implementation on the 2001 Broad Economic Policy Guidelines", European Economy, No. 1, *http://europa.eu.int/comm/economy_finance/publications/european_economy/implement2001_en.htm*

European Commission (2002i),
"Commission's Action Plan for Skills and Mobility", Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions, COM(2002)72, *http://europa.eu.int/comm/employment_social/news/2002/feb/ap_en.pdf*

European Commission (2002j),
"Free Movement of Workers – Achieving the Full Benefits and Potential", Communication from the European Commission, COM(2002)694 Final, *http://europa.eu.int/comm/employment_social/news/2002/dec/694_en.pdf*

European Commission (2002k),
"Proposal for a Directive of the European Parliament and the Council on Working Conditions for Temporary Workers", COM/2002/0149 Final.

European Commission (2002l),
"Communication from the Commission to the European Parliament and the Council on the Need and the Means to Upgrade the Quality of Budgetary Statistics", COM(2002)670, Brussels.

European Commission (2002m),
"Strengthening the Coordination of Budgetary Policies", Communication from the Commission to Council and the European Parliament, COM(2002)668, Brussels.

© OECD 2003

European Commission (2002n),
"Production Function Derived Output Gains", Information Note for the members of the EPC, ECFIN/528/02, Brussels.

European Commission (2002o),
"Quarterly Report of the Euro Area IV, 2002", December, ECFIN/624/02-EN.

European Commission (2002p),
Report on the Functioning of Community Product and Capital Markets, *http://europa.eu.int/comm/internal_market/en/update/economicreform/index.htm http://europa.eu.int/comm/internal_market/en/update/economicreform/cardiff02en.pdf*

European Commission (2002q),
"Second Benchmarking Report on the Implementation of the Internal Electricity and Gas Market", SEC(2002)1038, *http://europa.eu.int/comm/energy/electricity/benchmarking/doc/2/sec_2002_1038_en.pdf*

European Commission (2002r),
"Report from the Commission to the European Parliament and the Council on the Application of the Postal Directive", (97/67/EC Directive)/COM(2002) 632 Final, *www.europarl.eu.int/meetdocs/committees/rett/20030120/COM_COM(2002)0632_en.pdf*

European Commission (2002s),
"Commission guidelines on market analysis and the assessment of significant market power under the Community regulatory framework for electronic communications networks and services", Official Journal of the European Communities 11.7.2002, *http://europa.eu.int/eur-lex/pri/en/oj/dat/2002/c_165/c_16520020711en00060031.pdf*

European Commission (2002t),
"Eighth Report on the Implementation of the Telecommunications Regulatory Package", COM(2002)695 Final, Brussels, December, *http://europa.eu.int/scadplus/leg/en/lvb/l24217c.htm*

European Commission (2002u),
"Recruitment of Employees: Administrative Burdens on SMEs in Europe", Observatory of European SMEs, No. 7, *http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/doc/smes_observatory_2002_report7_en.pdf*

European Commission (2002v),
European Union Energy and Transport in Figures 2002, European Commission Directorate-General for Energy and Transport in Co-operation with Eurostat, Brussels, *http://europa.eu.int/comm/energy_transport/etif/etif_2002.pdf*

European Commission (2002w),
"Public Finances in EMU", *European Economy*, No. 3, Brussels.

European Commission (2002x),
"Second Biennial Report on the Application of the Principle of Mutual Recognition in the Single Market", *Report from the Commission to the Council, the European Parliament and the Economic and Social Committee*, (COM(2002)419), Brussels.

European Commission (2003a),
"Internal Market Strategy. Priorities 2003-2006," COM(2003)238Final, Brussels, *http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003_0238en01.pdf*

European Commission (2003b),
"Updating and Simplifying the Community Acquis", Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, COM(2003)71 Final, *http://europa.eu.int/comm/governance/docs/comm_simple_en.pdf*

© OECD 2003

European Commission (2003c),
"The Report on the Implementation of the 2002 Broad Economic Policy Guidelines", European Economy, No. 1, *http://europa.eu.int/comm/economy_finance/publications/european_economy/implement2002_en.htm*

European Commission (2003d),
"The Role of Financial Markets in Promoting Sound Public Finances in EMU", *Quarterly Report on the Euro Area*, No I/2003, European Commission, Brussels.

European Commission (2003e),
Press Release from the European Commission – IP/03/290 – 27.02.2003.

European Commission (2003f),
XXXII Commission Report on Competition Policy in 2002, SEC(2003) 467 Final, *www.europa.eu.int/comm/competition/annual_reports/2002/report_short_en.pdf*

ECB (European Central Bank) (2001a),
"Measures of Underlying Inflation in the Euro Area", Monthly Bulletin, ECB, Frankfurt, July, *www.ecb.int/pub/pdf/mb200107en.pdf*

ECB (2001b),
"Framework and Tools of Monetary Analysis", Monthly Bulletin, ECB, Frankfurt, May, *www.ecb.int/pub/pdf/mb200105en.pdf*

ECB (2001c),
Monthly Bulletin, November 2001, Frankfurt.

ECB (2002a),
"Issues Related to Monetary Conditions Indices", Monthly Bulletin, Box 3, ECB, Frankfurt, June.

ECB (2002b),
Monthly Bulletin, October 2002, Frankfurt.

ECB (2002c),
Labour Market Mismatches in Euro Area, March, Frankfurt, *www.ecb.int/pub/pdf/labour market2002.pdf*

ECB (2003a),
"Structural Factors in the EU Housing Markets", March.

ECB (2003b),
Monthly Bulletin, April 2003, Frankfurt.

ECB (2003c),
*Monthly Bull*etin, May 2003, Frankfort.

Engle, C. and Rogers, J. (2001),
"Deviations from the Law of One Price: Causes and Welfare Costs", Journal of International Economics 55, 29-58, Amsterdam: Elsevier Science.

Eurostat (2003),
"Electricity statistics", Statistics in focus, Environment and energy, Theme 8 – 4/2003, *http://europa.eu.int/comm/eurostat/Public/datashop/print-catalogue/EN?catalogue=Eurostat&collection=02-Statistics%20in%20Focus&product=KS-NQ-03-004-__-N-EN*

Fajertag, G. (1998),
"Working Time in Europe: Current Trends", in Wheelock, J. and Vail, J. (eds) *Work and Idleness: the Political Economy of Full Employment*, Dordrecht: Kluwer Academic Publishers.

Fase, M.M.G. (2002),
"Inflation Differentials and their Convergence in EMU", *De Economist*, Vol. 150.

© OECD 2003

Fase, M.M.S. and C.C.A. Winder (1998),
"Wealth and the Demand for Money in the Monetray Union", *Empirical Economics*, Vol. 23.

Financial Times (FT) (2000),
"The Cost of Living Around the World", 21 December 2000, London.

FT (2002),
"IndustryWarnsonR&DSpendingintheEU",26 November 2002, London.

Forde, C. (1998),
"Out of Time? Agency Temps and the Working Time Regulations", *Centre for Industrial Policy and Performance Bulletin*, No. 13, University of Leeds.

Georghiou, L. (2001),
Evolving Frameworks for European Collaboration in Research and Technology, *Research Policy*, No. 30. Amsterdam : Elsevier Science.

Gerlach, S. and L.E.O. Svensson (2002),
"Money and Inflation in the Euro Area: A Case for Monetary Indicators?", CEPR *Discussion Paper Series*, May 2002, London.

Giannetti, M., L. Guiso, T. Jappelli, M. Padula and M. Pagano (2002),
"Financial Market Integration, Corporate Financing and Economic Growth", European Commission, *European Economy*, Economic Papers, No. 179,
http://europa.eu.int/comm/economy_finance/publications/economic_papers/2002/ecp179en.pdf

Giovannini Group (2001),
"Cross-Border Clearing and Settlement Arrangements in the European Union", Brussels, November 2001,
http://europa.eu.int/comm/economy_finance/publications/giovannini/clearing1101_en.pdf

Giovannini Group (2003),
"Second Report on Cross-Border Clearing and Settlement Arrangements in the European Union. Report of the Giovannini Group", European Commission, Brussels, April, *http://europa.eu.int/comm/economy_finance/publications/giovannini/clearing_settlement_arrangements140403.pdf*

Goodfriend, M. (2002),
"Interest Rate Policy Should Not React Directly to Asset Prices", Paper presented at the Federal Reserve Bank of Chicago and World Bank Group Conference on "Asset Price Bubbles", Chicago, April.

Goodhart, C.A.E. (2002),
"The Historical Pattern of Economic Cycles and Their Interaction with Asset Prices and Financial Regulation", *Paper presented Federal Reserve Bank of Chicago World Bank Conference on Asset Price Bubbles*, Chicago, April.

Gordon, R.J. (2002),
"Two Centuries of Economic Growth: Europe Chasing the American Frontier", Northwestern University, *http://faculty-web.at.nwu.edu/economics/gordon/355.pdf*

Guellec, D. (2001),
"Les Politiques de Soutien à l'Innovation Technologique à l'Aune de la Théorie Economique", *Economie et Prévision*, No. 150-151. Paris : ministère de l'économie et des finances.

Guellec, D. and Pottelsberghe de la Potterie (2000),
"The Impact of Public R&D Expenditure on Business R&D", STI *Working Papers* 2000/4, OECD, June, Paris.

© OECD 2003

Haskel, J. and H. Wolf (1999),
"Why Does the 'Law of One Price' Fail? A Case Study", CEPR *Discussion Paper*, No. 2187, July 1999, London.

Haskel, J. and H. Wolf (2001),
"The Law of One Price – A Case Study", NBER Working Paper, No. 8112, Cambridge, MA.

Heinemann, F. and M. Schüler (2002),
Integration Benefits on EU Retail Credit Markets – Evidence from Interest Rate Pass-through, ZEW – Zentrum für Europäische Wirtschaftsforschung, Mannheim, January, *ftp://ftp.zew.de/pub/zew-docs/div/heinemannpassthrough.pdf*

Hoeller, P., C. Giorno and C. de la Maisonneuve (2002),
"Overheating in Small Euro-Area Economies: Should Fiscal Policy React?", *Economics Department Working Paper*, No. 323, OECD, Paris, *http://appli1.oecd.org/olis/2002doc.nsf/linkto/eco-wkp(2002)9/$FILE/JT00121236.pdf*

Hofmann, B. (2001),
"The Determinants of Private Sector Credit in Industrialised Countries: Do Property Prices Matter?", BIS *Working Papers*, No. 108.

Hunt, B. L. and D. M. Laxton (2003),
"Some Simulation Properties of the Major Euro Area Economies in MULTIMOD", IMF *Working Paper*, No. 03/31, Washington, *www.imf.org/external/pubs/cat/longres.cfm?sk=16275.0*

IEA (International Energy Agency) (2001),
Competition in Electricity Markets, IEA, Paris.

IEA (2002),
Electricity Information, 2002 Edition, IEA, Paris, *www.iea.org/stats/files/ele.htm*

IEIC (Institut Européen Interrégional de la Consommation) (2001),
"Bank Charges in Europe. Report for the European Commission", Lille, May, *http://europa.eu.int/comm/dgs/health_consumer/library/surveys/sur14_en.pdf*

Institut für Weltwirtschaft (2002),
"Euroland: Aufschwung verzögert sich", Thesen zum Kieler Konjunkturgespräch, No. 66, September.

IMF (International Monetary Fund) (2002a),
"Three Essays on How Financial Markets Affect Real Activity", *World Economic Outlook*, Spring 2002.

IMF (2002b),
"Selected Euro-Area Countries: The Determinants of Growth: the Experience in the Southern European Economies of Greece and Portugal", IMF *Country Report*, No. 02/91.

IMF (2003),
World Economic Outlook, April, Washington.

INRA (2002),
European Electricity Prices Observatory: Year 2001 Results, July 2002, *www.inra.com/press/report2002.pdf*

Issing, O. (2003),
"Monetary and Financial Stability: Is There A Trade-off?", *Address at the Conference on "Monetary Stability, Financial Stability and the Business Cycle"*, March 28-29, Bank for International Settlements, Basle.

Jean, S. and G. Nicoletti (2002),
"Product Market Regulation and Wage Premia in Europe and North America: An Empirical

© OECD 2003

Investigation", *Economics Department Working Papers*, No. 318, OECD, Paris, *http://appli1.oecd.org/olis/2002doc.nsf/linkto/eco-wkp(2002)4/$FILE/JT00119737.pdf*

Jensen, P. (1999),
"The Danish Youth Unemployment Programme", *mimeo*, Centre for Labour Market and Social Research, Aarhus.

Joumard, I. and P.M. Kongsrud (2003),
"Fiscal Relations Across Government Levels", Economics Department, Economic Policy Committee, ECO/CPE/WP1(2003)2, OECD, Paris.

Kalirajan, K. (2000),
"Restrictions on Trade in Distribution Services", Productivity Commission Staff Research Paper, Ausinfo, Canberra, August, *http://econwpa.wustl.edu/eps/lab/papers/0105/0105008.pdf*

Kleimeier, S. and H. Sander (2002),
"Consumer credit rates in the Eurozone: evidence of the emergence of single retail credit market", European Credit Research Institute, ECRI Research Report, No. 2, *www.ciaonet.org/wps/kls01/kls01.pdf*

Kluve, J., H. Lehmann and C.M. Schmidt (1999),
"Active Labour Market Policies in Poland: Human Capital Enhancement, Stigmatization, or Benefit Churning?", *Journal of Comparative Economics*.

Kluve, J. and C.M. Schmidt (2002),
"Active Policy Evaluation", Economic Policy, October.

Konkurrensestyrelsen (2000),
Konkurrenceredegørelse 2000, Copenhagen, *www.ks.dk/publikationer/konkurrenceredegoerelsen/kr2000/*

Kontolemis, Z. G. (2002),
"Money Demand in the Euro Area: Where Do We Stand Today?", IMF *Working Paper*, WP/02/185.

Kuhlmann, S. (2001),
"Future Governance of Innovation Policy in Europe – Three Scenarios", *Research Policy*, No. 30. Amsterdam, Elsevier Science.

Kühn, K.-U. (2002),
"Reforming European Merger Review: Targeting Problem Areas in Policy Outcomes", Journal of Industry, Competition and Trade, Vol. 2, No. 4, *http://ipsapp009.kluweronline.com/content/getfile/4852/5/1/fulltext.pdf*

Lamfalussy Report (2001),
Final Report of the Committee of Wise Men on the Regulation of European Securities Markets, Brussels, February, *http://europa.eu.int/comm/internal_market/en/finances/general/lamfalussyen.pdf*

Lannoo, K. and M. Levin (2002),
"An EU Company Without an EU Tax? A Corporate Tax Action Plan for Advancing the Lisbon Process", Centre for Economic Policy Studies, *Research Report*, April.

Larsson, L. (2000),
"Evaluation of Swedish Youth Labour Market Programmes", IFAU *Working Paper Series* 2000:1, Office of Labour Market Policy Evaluation, Sweden.

© OECD 2003

London Economics (2002),
Quantification of the macro-economic impact of integration of EU financial markets, London, *http://europa.eu.int/comm/internal_market/en/finances/mobil/overview/summary-londonecon_en.pdf*

Mandelkern Report (2001),
"Mandelkern Group on Better Regulation", Final Report, 13 November, *www.cabinet-office.gov.uk/regulation/europe/eurodocs/Mandfinalreport.pdf*

Martin, J.P. and D. Grubb (2001),
"What Works and for Whom: A Review of OECD Countries' Experiences with Active Labour Market Policies", IFAU *Working Paper*, No. 2001:14.

Masuch, K., H. Pill and C. Willeke (2001),
"Framework and Tools of Monetary Analysis", in Monetary Analysis: Tools and Applications, ed. H-J. Klöckers and C. Willeke, ECB, Frankfurt, *www.ecb.int/events/conf/other/ecbmonetaryanalysis.pdf*

McGrattan, E. R., and E. C. Prescott (2001),
"The Stock Market Crash of 1929: Irving Fisher Was Right!", Federal Reserve Bank of Minneapolis, *Research Department Staff Report* 294.

McKinsey and Company (2003),
"Overhauling the European Auto Distribution", *The McKinsey Quarterly*, No. 1.

Meltzer, A.(2002),
"Rational and Irrational Bubbles", *Keynote Address for the Federal Reserve Bank of Chicago World Bank Conference on Asset Price Bubbles*, Chicago, April.

Messerlin, P. (2001),
Measuring the Costs of Protection in Europe: European Commercial Policy in the 2000s, Washington: Institute for International Economics.

Midelfart-Knarvik, K.H. and H.G. Overman (2002),
"Delocation and European Integration: Is Structural Spending Justified?", *Economic Policy*, Vol. 17, No. 35.

Milesi-Feretti, G-M., R. Perotti and M. Rostagno (2002),
"Electoral Systems and the Composition of Public Spending", *Quarterly Journal of Economics*, Vol. 117.

Mishkin, F, S. and E.N. White (2001),
"US Stock Market Crashes and Their Aftermath: Implications for Monetary Policy", *Conference of theFederal Reserve Bank of Chicago and The World Bank on Asset Price Bubbles*, Chicago, October.

Morgan, J. and A. Mourougane (2002),
"The Impact of Active Labour Market Policies in Europe", European Central Bank, *mimeo*.

Nagarajan, N. (1999),
The millennium round: An economic appraisal. European Commission Economic Papers Number 139, Brussels.

Nelson, E. (2002),
"What Does the UK Monetary Policy and Inflation Experience Tell Us About the Transmission Mechanism?", CEPR *Discussion Paper*, No. 3047.

Neven, D. and L.-H. Röller (1999),
"An Aggregate Structural Model of Competition in the European Banking Industry", *The International Journal of Industrial Organization*, Vol. 17(7).

© OECD 2003

Nicoletti, G., A. Bassanini, E. Ernst, S. Jean, P. Santiago and P. Swaim (2001), "Product and Labour Market Interactions in OECD Countries", *Economics Department Working Papers*, No. 312, OECD, Paris, *http://intradomino.oecd.org/olis/2001doc.nsf/linkfromhdeng/ECO-WKP- 2001-38/$file/JT00118559.pdf*

Nicoletti, G. and S. Scarpetta (2003), "Regulation, Productivity and Growth: OECD Evidence," *Economics Department Working Papers*, No. 47, OECD, Paris.

Neimke, M., C. Eppendorfer and R. Beckmann (2002), Deepening European Financial Integration: Theoretical Considerations and Empirical Evaluation of Growth and Employment Benefits, Ruhr-University Bochum, January, *ftp://ftp.zew.de/pub/zew-docs/div/neimke.pdf*

NordPool (2003), The Nordic Power Market, Oslo – Stockholm – Helsinki – Odense, 15 January 2003, *www.nordpool.no/information/reports/Report-Nordic%20Market.pdf www.nordpool.no/information/reports/introduction.html*

Notaro, G. (2002), "European Integration and Productivity: Exploring the Gains of the Single Market", London Economics.

OECD (1996), "Abuse of Dominance and Monopolization", Competition Committee Roundtable Discussion, OECD, Paris.

OECD (1999), *Implementing the OECD Jobs Strategy: Assessing, Performance and Policy*, OECD, Paris.

OECD (2000a), *Science, Technology and Industry Outlook*, OECD, Paris.

OECD (2000b), "Labour Market Policies and the Public Employment Services", *Proceedings from the Prague Conference*, OECD, Paris.

OECD (2001a), *Trends in International Migration*, OECD, Paris.

OECD (2001b), *Employment Outlook*, OECD, Paris.

OECD (2001c), *Environmental Indicators for Agriculture*, Volume 3, Paris.

OECD (2001d), *Restructuring Public Utilities for Competition*, OECD, Paris.

OECD (2001e), *Railway Reform*, ECMT, Paris.

OECD (2002a), *Measuring the Information Economy*, OECD, Paris.

OECD (2002b), *Employment Outlook*, OECD, Paris.

OECD (2002c), *Taxing Wages*, OECD, Paris.

OECD (2002d), "Can Migration Help to Alleviate Labour Shortages?," Directorate for Education,

© OECD 2003

Employment and Social Affairs; Employment, Labour and Social Affairs Committee, OECD, Paris.

OECD (2002e),
"Policies to Improve the Labour Market Prospects of Older Workers: Progress Report", Directorate for Education, Employment, Labour and Social Affairs; Employment, Labour and Social Affairs Committee, OECD, Paris.

OECD (2002f),
Economic Outlook, No. 72, OECD, Paris.

OECD (2002g),
Fighting Hard-core Cartels: Harm, Effective Sanctions and Leniency Programmes, OECD, Paris.

OECD (2002h),
Economic Surveys: Germany, OECD, Paris.

OECD (2002i),
Agriculture and Trade Liberalisation, Extending the Uruguay Agreement, OECD, Paris.

OECD (2002j),
Economic Surveys: Belgium, OECD, Paris.

OECD (2002k),
"Product Market Competition and Economic Performance: A Framework for EDRC Reviews", Economics Department, Economic Policy Committee, Working Party No. 1 on Macroeconomic and Structural Policy Analysis, Paris.

OECD (2003a),
Employment Outlook, OECD, Paris.

OECD (2003b),
Turning Science into Business: Patenting and Licensing at Public Research Organisation, OECD, Paris.

OECD (2003c),
Economic Outlook, No. 73, OECD, Paris.

OECD (2003d),
Hard Core Cartels: Recent Progress and Challenges Ahead, OECD, Paris.

OECD (2003e),
Agricultural Policies in OECD Countries: Monitoring and Evaluation, OECD, Paris.

OECD (2003f),
Communication Outlook 2003, OECD, Paris.

Oliveira Martins, J., Price, T. and N. Mulder (2002),
"A Taxonomy of Market Structure Cluster", Economics Department Working Papers, forthcoming.

Overman, H.G. and D. Puga (2002),
"Unemployment Clusters across Europe's Regions and Countries", *Economic Policy*, Vol. 34.

Pascual, A.G. (2003),
"Assessing European stock market (co)integration", Economics Letters, Vol. 78, *www.sciencedirect.com/science?_ob=MImg&_imagekey=B6V84-47BXBK4-1-R&_cdi=5860& _orig =browse&_coverDate=02%2F28%2F2003&_sk=999219997&view=c&wchp=dGLbVzb-lSzBV&_acct=C000049020&_version=1&_userid=946274&md5=d0a5c3ad65aca53e127c4c62c9036dff&ie=f.pdf*

Persson, T. and G. Tabellini (2002a),
"Political Institutions and Policy Outcomes: What are the Stylised Facts?", *mimeo*, August.

© OECD 2003

Persson, T. and G. Tabellini (2002b),
"Do Electoral Cycles Differ Across Political Systems?", *mimeo*, July.

Poterba, J. M. (1984),
"Tax Subsidies to Owner-Occupied Housing: An Asset-Market Approach", *The Quarterly Journal of Economics*, Vol. 99.

Poterba, J. M. (1991),
"House Price Dynamics", *Brookings Papers of Economic Activity*, No. 2:1999.

PricewaterhouseCoopers (2002),
Managing Mobility Matters – A European Perspective, *www.pwcglobal.com/Extweb/ncsurvres.nsf/docid/* 6AE28A9826724AB785256B7B003C9CFA

Raaum, O. and H. Torp (2002),
"Labour Market Training in Norway – Effect on Earnings", *Labour Economics*, Vol. 9.

Reinhart, V. R. (2002),
"Planning to Protect Against Asset Bubbles", Board of Governors of the Federal Reserve System, *mimeo*.

Rogers, J.H. (2002),
"Monetary Union, Price Level Convergence, and Inflation: How Close is Europe to the United States?", Board of Governors of the Federal Reserve System, *International Finance Discussion Paper*, No. 740.

Rogers, J.H., G.C. Hufbauer and E. Wada (2001),
"Price Level Convergence and Inflation in Europe", Institute for International Economics Working Paper, No. 01-01, *www.iie.com/publications/wp/2001/01-1.pdf*

Sauner-Leroy, J.-B. (2003),
"L'impact de la mise en oeuvre du programme de marché unique sur l'efficacité productive et sur les mark-ups dans l'industrie manufacturière européenne", European Economy, (forthcoming).

Scarpetta, S. and T. Tressel (2002),
"Productivity and Convergence in a Panel of OECD Industries: Do Regulations and Institutions Matter?" *Economics Department Working Papers*, No. 342, OECD, Paris.

Schibany, A. and G. Streicher, (2003),
"Aiming High: An Assessment of the Barcelona Targets", *InTeReg Working Paper*, No. 06-2003, Vienna.

Sheehan, J. and A. Wyckoff (2003),
"Targeting R&D: Economic and Policy Implications of Increasing R&D Spending Working Party on Innovation and Technology Policy", STI *Working Paper* 2003/8, OECD, Paris.

Solow, R.M. (2002),
"Is Fiscal Policy Possible? Is it Desirable?", MIT Press, September (*mimeo*).

Swank, J., J. Kakes and A.F. Tieman (2002),
"The Housing Ladder, Taxation, and Borrowing Constraints", *Research Memorandum*, No. 688, De Nederlandsche Bank, Amsterdam.

Trecroci, C. and J. L. Vega (2002),
"The Information Content of M3 for Future Inflation in the Euro Area", *Weltwirtschaftliches Archiv*, Vol. 138(1).

Ullersma, C.A. (2002),
"The Zero Lower Bound on Nominal Interest Rates and Monetary Policy Effectiveness: A Survey," *De Economist*, Vol. 150, No. 3.

© OECD 2003

Van den Noord, P. (2000),
"The Size and Role of Automatic Fiscal Stabilisers in the 1990s and Beyond", *Economics Department Working Papers*, No. 230, OECD, Paris.

Van den Noord, P. (2003),
"Tax Incentives and House Price Volatility: Theory and Evidence", Economics *Department Working Paper*, No. 356, OECD, Paris.

Van Ours, J.C. (2001),
"Do Active Labour Market Policies Help Unemployed Workers to Find and Keep Regular Jobs?" in M. Lechner and F. Pfeiffer (eds), *Econometric Evaluation of Labour Market Policies*, Physica, Heidelberg.

Veugelers, R., De Voldere, J. R., Rommens, K. Sleuwaegen, L. (2001),
"Determinants of Industrial Concentration, Market Integration, and Efficiency in the European Union", Study for the European Commission, forthcoming in the *European Economy*, Brussels.

Yates, T. (2002),
"Monetary Policy and the Zero Bound to Interest Rates: A Review", ECB *Working Papers*, No. 190, October.

© OECD 2003

Table of Contents

Assessment and recommendations		9
I.	**Macroeconomic performance and structural reform**	21
	Recent developments and short-term prospects	22
	Medium-term performance	29
	Towards better working product markets	33
	Towards a better working labour market	51
	Achieving the Lisbon targets by 2010: a reasonable goal?	68
II.	**Fiscal policy challenges**	75
	Fiscal targets were again largely undershot	75
	What went wrong	80
	What should be done	83
III.	**Monetary management**	91
	Inflation is coming down	91
	The policy stance	93
	The policy framework revisited	100
IV.	**Policies bearing on product market competition and growth**	109
	Competition enhances potential growth	109
	Competition legislation is being reformed	114
	Regulatory policy	125
	Other policies to promote competition and growth	139
	Scope for further action	146
Notes		151
Glossary of acronyms		161
Bibliography		163
Annexes		
I.	Supporting statistics	179
II.	The mutual recognition principle in practice	188
III.	The financial market environment	190
IV.	Tax incentives and house price volatility: Theory and Evidence	199
V.	Indicators of market power	204

© OECD 2003

Boxes

1. Progress in financial market integration 37
2. Proposals for improving the EU's regulatory framework 43
3. Assessing the Barcelona R&D targets 47
4. Can immigration help? 63
5. Directives on work organisation 67
6. Is the political business cycle still alive in EMU? 84
7. Financial markets and fiscal discipline 86
8. The Commission's proposals to improve the implementation of the Stability and Growth Pact 88
9. Price dispersion 110
10. The block exemption for the automobile industry 116
11. The judgements of the Court 119
12. Agriculture: a sector with its own competition framework 126
13. Synopsis of recommendations 147

Annex

A1. Synopsis of 2002 EDRC recommendations 191

Tables

1. Risks and uncertainties surrounding the projections 28
2. Average trend growth in GDP per capita 30
3. Medium-term baseline scenario 33
4. Formalities for establishing a business 36
5. Restrictiveness in distribution 39
6. Job tenure of employees 55
7. Key EU labour market targets and indicators 55
8. Change in productivity induced by a change in product market regulation 69
9. Summary results of the medium term effects of structural reforms 73
10. European Union accession countries: key indicators 74
11. Euro area fiscal indicators 77
12. Decomposing the fiscal stance 82
13. The fiscal stance across countries 82
14. Fiscal policy stances at different stages of the election cycle 85
15. Monetary aggregates and their counterparts 97
16. Structural features of housing markets and inflation differentials 107
17. Review of literature on price dispersion in Europe 112
18. Average value of imposed sanctions relative to the turnover in affected industries 121
19. Total support estimate (TSE) in agriculture 128
20. Liberalisation of electricity and gas markets 130
21. Import penetration 140
22. Entry into banking 145

Annexes

A1. Labour market transitions 179
A2. Benefit systems in the euro area 180
A3. Childcare and elderly care: data and targets set in 2002 National Action Programmes 181
A4. Overview of the Action Plan for Skills and Mobility 183
A5. Developing lifelong learning strategies 184
A6. Wage indexation and minimum wages in the euro area 185
A7. The five vintages of Stability and Convergence Programmes compared 186

© OECD 2003

A8. Legislative programme for 2003 193
A9. The tax wedge for housing: simulation results 201
A10. Estimated industry wage premia 205
A11. Hirschman-Herfindahl indices of industry concentration 206
A12. Import penetration 207

Figures

1. GDP and short-term indicators 23
2. The policy stance 24
3. Economic slack and inflation pressure 26
4. Evolution of the income gap with the United States 30
5. Explaining the income gap 31
6. Decomposing trend labour resource utilisation 32
7. Euro area internal market index 34
8. Trade patterns in the euro area 34
9. R&D intensity 46
10. Patents 48
11. Venture capital investment by stages 48
12. Science, technology and innovation benchmark indicators 49
13. Structural rates of unemployment 52
14. Beveridge curve 53
15. Participation and employment rates 54
16. Temporary contracts in the euro area 54
17. Estimates of gross and net replacement rates 58
18. Tax rates on labour 59
19. Incidence of long-term unemployment 61
20. Ratio of minimum wage to full-time median earnings 65
21. Strictness of employment protection legislation 66
22. Medium-term effects of structural reforms boosting productivity 70
23. Medium-term effects of structural reforms enhancing employment 72
24. Moving targets 76
25. Fiscal balances 78
26. Fiscal policy indicators 81
27. Inflation performance since the advent of the euro 92
28. Interest rate developments 94
29. Exchange rate developments 96
30. Asset prices and debt 98
31. Monetary policy stance 100
32. House prices and money growth 103
33. Inflation dispersion 106
34. Relative price levels and GDP per capita 111
35. State aid and GDP 125
36. Market share of the largest generator in the electricity market 130
37. Telephone charges in OECD countries 135
38. Telecommunications market shares 137
39. Published public procurement 143

Annexes

A1. Volume of euro-denominated bonds issued 197
A2. The impact of a demand shock on house prices 200
A3. The impact of taxation on housing cost 202
A4. Correlation between the tax wedge and variability of house prices 203

© OECD 2003

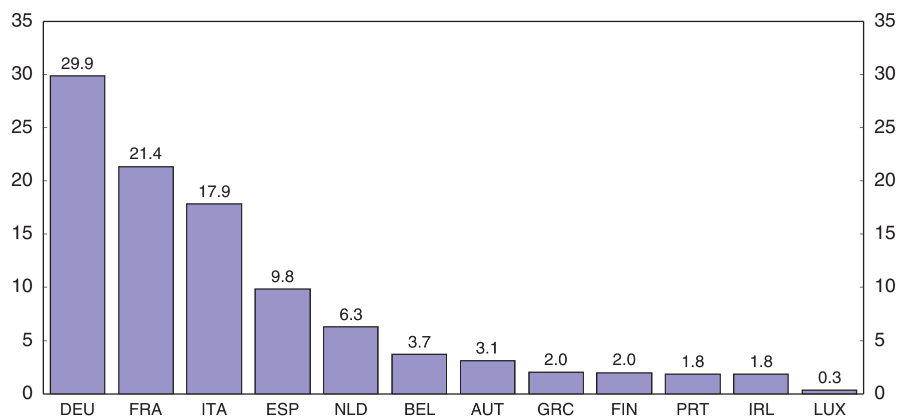
BASIC STATISTICS
(2002)

LAND AND PEOPLE	Euro area	United States	Japan
Area (thousand km²)	2 456	9 167	395
Population (million, in 2001)	303.7	285.0	127.2
Number of inhabitants per km²	124	31	322
Population growth (1993-2001, annual average % rate)	0.3	1.3	0.2
Labour force (million)	141.5	144.9	66.9
Unemployment (%)	8.2	5.8	5.4
ACTIVITY			
GDP (billion USD, current prices and exchange rates)	6 623.4	10 365.8	3 944.5
Per capita GDP (USD, current prices and PPPs, in 2000)	24 320	35 619	25 968
In per cent of GDP:			
Gross fixed capital formation	20.2	18.6	24.2
Exports of goods and services (in 2001)	19.8	9.9	10.7
Imports of goods and services (in 2001)	18.7	13.5	10.1
PUBLIC FINANCES (per cent of GDP)			
General government: Revenue	45.6	31.9	30.8
Expenditure	48.4	35.6	38.6
Balance	–2.3	–3.4	–7.1
Gross public debt (end-year)	75.0	61.0	140.5
EXCHANGE RATE (national currency per euro)			
Year average	. .	0.94	118.1
Start of year	. .	0.90	119.5
End of year	. .	1.05	124.4

EURO AREA – EXTERNAL TRADE IN GOODS (main partners, % of total flows, in 2001)

	Exports	Imports
Non-euro area European Union countries	24.1	19.3
European Union accession countries	9.9	8.6
Other Europe	14.7	14.7
OECD America	19.0	16.0
OECD Asia/Pacific	5.6	8.8
Dynamic Asian Economies and China	7.2	11.6

SHARE IN EURO AREA GDP (current market prices)



Note: An international comparison of certain basic statistics is given in an annex table.

This Survey is published on the responsibility of the Economic *and* Development Review Committee *of the* OECD, *which is charged with the examination of the economic situation of member countries.*

•

The economic situation and policies of the euro area were reviewed by the Committee *on* 14 May 2003. *The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole* Committee *on* 29 July 2003.

•

The Secretariat's *draft report was prepared for the* Committee *by* Paul van den Noord, Laurence Boone *and* Carl Gjersem *under the supervision of* Peter Hoeller.

•

The previous Survey *of the euro area was issued in September* 2002.

From:
OECD Economic Surveys: Euro Area 2003

Access the complete publication at:
https://doi.org/10.1787/eco_surveys-euz-2003-en

Please cite this chapter as:

OECD (2003), “Assessment and Recommendations”, in *OECD Economic Surveys: Euro Area 2003*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_surveys-euz-2003-2-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d’exploitation du droit de copie (CFC) at contact@cfcopies.com.

OECD