

FOREWORD

The European economy continued to recover in 2016, albeit at a slightly slower pace. Within the euro area in particular, the ultra-loose policy of the European Central Bank, with its negative interest rates and quantitative easing, led to a devaluation of the euro and boosted Eurozone exports. Structural weaknesses like poor competitiveness and large volumes of non-performing loans in the financial system, however, illustrate persisting disparities within the European Union. Combined with growing political instability – both within the European Union and around the world – they make Europe’s future economic development look very uncertain.

While previous reports by the European Economic Advisory Group (EEAG) at CESifo have elaborated on financial and economic weaknesses as well as imbalances in Europe, this year’s report, the sixteenth in the series, discusses the worrying rise of populism, which poses an equally serious threat to European cohesion. As indicated by the report’s title – “Economics of Populism” – it focuses on the populist economic policy agenda, the factors generating support for populism and the implications of populist policies.

The introductory Chapter 2 defines populism, populist economic policies and the populist view on economic developments. It reveals how the populist agenda is short-sighted, provides overly simplistic answers to complex questions and adopts an overly narrow approach, neglecting the multidimensionality of most economic policy issues. The chapter also clarifies the importance of checks and balances and democratic compromise in effective economic policy. The abuse of referenda and veto powers, by contrast, hamper the implementation of beneficial policies and foster the rise of populism.

Brexit is the outcome of a referendum that was, at least partly, captured by a populist discourse. Chapter 3 looks at how general scepticism over European integration catalysed into Britain’s decision to leave the European Union. Looking to the future, the chapter also takes a clear stand on the exit process: a bitter divorce for both Britain and the European Union must be avoided at all costs. To facilitate a harmonious break, both sides need to state their negotiating positions clearly, publicly and quickly. From an EU perspective, Brexit represents an opportunity to learn valuable lessons and sustainably remodel the Union.

The rise of populism in recent years is closely related to migration flows and the refugee crisis, which is the topic of Chapter 4. This chapter describes these flows and discusses the implications of migration for European economies and populations. The chapter also explains how populist parties stand to benefit from the integration challenge currently facing Europe. It

makes policy recommendations for resolving the refugee crisis and undermining populist arguments.

As always, the first chapter of the report contains an in-depth analysis of the economic situation of the European Union and other countries around the world, together with a forecast for the year ahead.

The European Economic Advisory Group at CESifo, which is collectively responsible for all parts of the report, consists of seven economists from six countries. This year the Group is chaired by John Driffill (Yale-NUS College) and includes Torben M. Andersen (Aarhus University), Giuseppe Bertola (University of Turin), Harold James (Princeton University), Jan-Egbert Sturm (KOF Swiss Economic Institute, ETH Zurich), Branko Urošević (University of Belgrade) and myself (Ifo Institute and University of Munich). The members participate on a personal basis and do not represent the views of the organisations they are affiliated with.

I would like to express my gratitude for the valuable assistance provided by the scholars and staff at CES and Ifo who helped to prepare the report. This year's participants were Felix Hugger and Christopher Weber (assistants to the group), Stefan Lautenbacher, Nikolay Hristov and Andreas Steiner (economic forecast), Lisa Giani Contini (editing), Christiane Nowack and Christoph Zeiner (graphics), Katharina Pichler and Elisabeth Will (typesetting) and Ines Gross (cover). I also wish to extend my warmest thanks to Swiss Re for hosting our December meeting.

Clemens Fuest
President, CESifo Group
Professor of Economics and Public Finance
Ludwig Maximilian's University Munich

Munich, 1 March 2017