

FOREWORD

This edition marks the eighth annual report of the European Economic Advisory Group (EEAG) at CESifo. The past year was a shock to all of us, recalling events of 1929. The development was worse than expected even though in last year's report we projected a very bleak economic outlook after discussing the subprime crisis in detail. This year we know more about the events and have more to say. The report contains a long and extensive chapter on the financial crisis and a chapter on the macroeconomic outlook showing the uniqueness of what has happened and what is yet to come. We do not subscribe to doomsday scenarios concerning capitalism as such, but do recommend tougher minimum equity constraints and substantial measures to create a common regulatory framework for the financial system of Europe, similar to the one we had proposed in our 2003 EEAG report. To bring more objectivity into a heated debate, the report also analyses the role of private equity funds, coming down with a basically positive view of these institutions. An innovation of this year is our in-depth study of the economic situation in one European country. We have chosen to start with France, which is undergoing major economic reforms and is therefore particularly interesting. Non-partisan as the Group is, it can offer fresh and unconventional views – all firmly based on sound economic reasoning – for policymakers and academics.

The EEAG, which is collectively responsible for this report, consists of a team of nine economists from eight European countries. This year, the Group is chaired by Gilles Saint-Paul (University of Toulouse) and includes Giancarlo Corsetti (European University Institute, Florence), Michael Devereux (University of Oxford), John Hassler (Stockholm University), Tim Jenkinson (Oxford University), Jan-Egbert Sturm (KOF Swiss Economic Institute, ETH Zurich, vice-chairman), Xavier Vives (IESE Business School) and myself. Additionally, we thank Pentti Kouri, who will join the Group as an active member this year, for helpful comments. The members of the Group as a whole are responsible for all chapters. They all participate on a personal basis and do not represent the views of the organisations they are affiliated with.

As always, the report benefited greatly from the support of the Ifo Institute, which provided the European economic forecast, as well as from help provided by the Center for Economic Studies of the Economics Faculty of the University of Munich. I wish to thank the members of the group for investing their time in a challenging project and I gratefully acknowledge valuable assistance provided by Maximilian von Ehrlich (research co-ordinator), Darko Jus (research assistant), Atharv Tillu (research assistant, chapter 3), Oliver Hülsewig (economic forecast), Paul Kremmel (editing), Christoph Zeiner (statistics and graphics) and Elisabeth Will (typesetting and layout). Moreover, I wish to thank Swiss Re for hosting our spring meeting.

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