Foreword

The euro area's economy emerged from a recession in spring 2013, with the sovereign debt and banking crises easing over the course of last year. However, a closer look at the performance of individual countries reveals that the euro area's economy is not out of the woods yet. Economic performance varied significantly across the euro area's member states in 2013, with imbalances in competitiveness manifesting themselves in persistent debt accumulation and mass unemployment in the periphery, despite some reforms. Expanding on topics that were discussed in previous issues, this year's report of the European Economic Advisory Group at CESifo (EEAG), the thirteenth of the series, shows that austerity is still necessary to achieve a rebalancing of relative prices within the euro area and offers a critical analysis of the concept of a unified banking system, which suffers from the attempt to implicitly socialise legacy assets, rather than offering a convincing bail-in strategy. Regardless of the diversity of the euro area, the report emphasises the importance of remaining on "The Road to Cohesion" and proposes Switzerland as a successful example. Despite its separate language groups, Switzerland has managed to build a functioning state with a decentralised structure based on the no-bailout principle, after being created as a defence union with a common army.

The EEAG, which is collectively responsible for all parts of the report, consists of a team of six economists from five countries. This year, the Group is chaired by Ákos Valentinyi (Cardiff Business School) and includes Giuseppe Bertola (EDHEC Business School), John Driffill (Birkbeck College), Harold James (Princeton University), Jan-Egbert Sturm (KOF Swiss Economic Institute, ETH Zurich) and myself (Ifo Institute and University of Munich). The members participate on a personal basis and do not represent the views of the organisations that they are affiliated with.

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