Foreword

"Now grows together what belongs together," former West German Chancellor Willy Brandt famously remarked in Berlin in November 1989. He was talking about German reunification, but his statement might well apply to European integration. Over the last 20 years, the European Union has grown by 12 Central European members and has helped millions get to high incomes. The single market now stretches from Lisbon to Łódź and from the North Cap to Nikosia. Trade and capital flows unrivaled in economic history have fueled the European convergence machine. Shared aspirations of Europeans in the east and the west, the north and the south, for prosperity that is both sustainable and socially inclusive have brought the continent together.

This economic integration makes it difficult to view one part of the continent in isolation. So this report looks at Europe as a whole—from the Atlantic Ocean to the Azov Sea. It is unusual for a development institution like the World Bank to be writing about countries in Western Europe that reached high-income status many years ago. But the geographical scope of this report is appropriate, and not just because what happens in the west affects prospects in the east. It is appropriate because the European Union's new member states in the east have undergone an unprecedented transformation over the past two decades—and their experiences have lessons for their western peers struggling with the structural exigencies of an integrated continent. It is also appropriate because the experience of Southern Europe with economic integration—and common monetary policy in particular—can help Central and Eastern Europe.

The Polish authorities, who inspired the work on this report in preparation for their Presidency of the European Union in the second half of 2011, understood from the outset that a report on European growth had to be about European integration. But it was also clear that it had to be about the lessons that Europeans can learn from each other and from successful countries in other parts of the world, to adjust better to an integrated Europe and a changing world. The Polish Presidency's report to the European Council in October 2011, Towards a New Consensus on Economic Growth, previews some of this report's conclusions. These in turn are informed by the successes of countries in Europe and around in the world in the policy areas that are pertinent today. The subjects range from regulating banks to reducing public debt; the countries range from the Czech Republic to Canada, and from Turkey to New Zealand.

When work on this report started, the world was recovering from the global economic crisis. Growth had returned to Europe too, but it was fragile. As the report went to print, Europe was again in crisis. Poland is not a member of the eurozone, and this report is not about the euro. It is about the future of the European economic model. But as Radek Sikorski, the Polish foreign minister, said in Berlin in November 2011: "The biggest threat to the security and prosperity of Poland would be the collapse of the eurozone."

Equally serious, trouble in the eurozone prompted questions about the achievements of European integration. It should not. The message of this report for Europe is this: in reacting to the debt crisis, do not abandon the attractive features of the European model. The report distinguishes three main attributes of the European economic and social model. The first is economic and political enlargement. The second is the combination of enterprise and social responsibility. The third is a focus on social inclusion and solidarity. These attributes have produced a prosperity that has been shared between people and countries in a manner not seen before or elsewhere. They should be nourished.

To be sure, though, some policies and institutions that have shaped Europe's progress need to be changed. The analysis in this report unveils a graduated reform agenda. Some parts of the European model require smaller adjustments: these include trade and finance, the two main drivers of the European convergence machine. Other parts require deep reform, such as labor and government. In between are enterprise and innovation, whose organization across the continent ranges from world class to mediocre.

Three objectives should guide policymakers. First, the single market should be strengthened to unleash new drivers of productivity growth. Second, enlargement should continue, and fully integrate the 100 million people in Southeastern Europe, and help another 75 million in the eastern partnership benefit from the same European aspirations and institutions. Third, Europe's global economic influence, which has been enabled and shaped by the values of inclusion and enterprise, should be preserved.

But this report is not just for Europe. It is also for people and policymakers outside the continent who follow Europe's progress and are interested in its prospects. Its message for them: don't count Europe out. There are countries—both advanced and emerging—where the European model has been made to work, and the results are gratifying. Europe's trials must not intimidate those working toward progressive goals; its successes should inspire them.

The report draws inspiration and its title from the golden rule of economic growth, which requires that today's decisions are viewed by later generations neither with regret nor resentment. The shared aspirations of Europeans for inclusive development have led to decades of success, and Europe's development has been distinct. If they can learn the right lessons from the reforms in and outside Europe, its development will be distinguished. This would be good not just for Europe but for the world.

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