"Europe and Global Imbalances: *An Incredibly Shrinking Role?"* Comments on "Macroeconomic Performance and Global Capital Flows: Is There a Role For Europe to Play" by Paola Subacchi.

In her paper, Ms. Subacchi reviews the source of Europe's high savings rate and low investment rate, discusses the Euro's role, and argues for long-dated government bonds to spur macroeconomic performance. First, she argues that demographics reduce private incentives to invest, and suggests that financial innovations could aid consumer borrowing and spending. Second, she notes tension with respect to the Euro's role; on the one hand desiring a more global role, but on the other hand, being concerned about the implications for exports of an appreciated Euro. Finally, she suggests that developing long-dated government bonds could aid in superior macroeconomic performance by 'mopping-up' savings and allowing the government to re-deploy it.

In my comments, I first discussed the nature of Europe's imbalance, then discussed the role of the Euro in narrowing the US trade deficit (as the measure of global imbalance). Finally, I comment on the role for long-dated government bonds.

From a savings-investment perspective as measured by the current account as a share of GDP, Europe is not particularly unbalanced. Instead, imbalance is in evidence in the sources of domestic productivity growth: Services productivity growth lags.

I then evaluate Europe and global imbalances, taking the perspective of the US trade deficit as the main global imbalance. Indeed, Europe runs a rather large net trade surplus vis-à-vis the US, which has increased almost without pause since the early 1990s. New research with a disaggregated data set suggests that Europe's growth would have to explode beyond all historical experience of the last 25 years for the region to figure prominently in the narrowing of the US trade deficit. On the other hand, a change in the relative price of Europe's exports (through, for example, a further sustained appreciation of the Euro) can play a key role.

If the Euro/dollar exchange rate is an important factor to narrow global imbalances, how relevant are long-dated Euro government bonds to the process? Will these bonds shift Asian demand from US Treasury securities? What could be the consequences of this shift for Europe's trade performance?