Editorial

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Biographical notes: Christian Richter is a Principal Lecturer of Economics and Finance at Royal Docks Business School, University of East London. His areas of research are applied econometrics, time-frequency analysis, climate change, business cycle convergence, optimal currency areas, European Monetary Union, bounded rationality in economics and finance and financial markets efficiency. He is Honorary Chair of the International Network for Economic Research. He has published several papers on business cycle convergence in Europe, Asia and the Americas. He has also published a series of papers on financial market efficiencies.

Edward Shinnick is a Senior Lecturer of Economics at the University College Cork. His research areas include competition in markets and industries, privatisation, competition policy, regulation and business strategy, where he has published a number of papers in national and international journals. Most recent publications cover the area of, economic incentives and the knowledge economy, regulatory reform in Irish legal services, corruption and governance issues and competition on bus transport in Ireland and the UK. He is the Vice-Chair of the International Network for Economic Research (INFER).

In this special issue, we cover different issues of public policy in the European Union. A special issue on the European Union would not be complete without reference to the current financial crisis of the Eurozone. Our emphasis here is not to analyse the (obvious) economic problems in the Eurozone, but rather controversial issues on the economic tools used to analyse the state of the economy. One of those tools is the rankings of the credit rating agencies (CRAs). Greece is a special case in many respects. However, what is outstanding is that Greece lost its prime credit rating without having actually defaulted. Given this situation it is not too far fetched to analyse the interest (or better saying) conflicts of interest of the CRAs. The paper by John Ryan analyses how credible these credit rating agencies are. His starting point is that politicians across the EU have called for increased regulation of CRAs and suggested that the oligopoly of the three major rating agencies should be challenged by the promotion or creation of a European CRA.

The valid charge against the rating agencies is that they failed to challenge the assumptions upon which their assessments of the sustainability of sovereign debt were based in the years running up to the crisis. They thus failed to identify risks in some Eurozone states which began building long before the crisis hit. The current crisis in the Eurozone supports the proposition of skepticism on the credibility of CRAs which did not properly disclose risk and thus contributed to pushing the global financial system to the verge of collapse.

The second paper on the Eurozone is by Richter and Paparas. They investigate the econometric tests concerning the reliability of sustainability tests. A number of sustainability tests have been developed in the past. They should serve as an early indicator to show whether governmental budget deficits are sustainable. They find that most tests fail. In other words, we are currently lacking a reliable econometric/statistical tool that would indicate when budget deficits grow too fast. The result of this paper is perhaps not surprising: As mentioned above Greece actually did not default. Greece served her debt obligations and only defaulted once the yields on her bonds were so high that the debt became unaffordable. Hence, the current econometric tests exclude the behaviour of financial markets. So far, it was always assumed that financial markets would always be willing to provide funds for government debt. This has recently changed and the paper by Ryan gives some insight why this has happened.

One special issue is, of course, not sufficient to cover all aspects of the Eurzone crisis, but we hope that the two papers provided discuss the current crisis from a different perspective and are in this sense inspiring for further research.

The next paper by Poças and Soukiazis analyses the impact of health policies on economic growth for Portuguese regions. In the age of austerity a lot of European countries (including the UK) are reducing their budgets for health expenditure. Apart from the direct budgetary impact, the paper argues that worsened health conditions may actually lead to lower economic growth. Hence, like education, health factors could be important for explaining the growth performance of regions through the increase in labour productivity. Although this is not a new idea, empirical evidence at a regional level is not robust supporting this issue, with few exceptions. With this study, they try to fill this gap and bring additional evidence of the relevance of health on regional growth considering the Portuguese districts. They also analyse whether there are differences between the *littoral* (coastal) and the *interior* (in-land) districts in what concerns health conditions and how they affect their convergence process.

The following paper by Freitas and da Silva analyses the European Union Emission Trading Scheme (EU ETS) for Portugal as an example. Green energy has recently been identified as a growth sector for many European countries. The EU ETS was set up to promote green energy and to reduce carbon emissions. The paper estimates both long-run equilibrium relations and short-run interactions between the electricity price and the fuel (natural gas and coal) and carbon prices. The outcomes for the Portuguese electricity system suggest that the dynamic pass-through of carbon prices into electricity prices is strongly significant. This demonstrates that power producers have been passed on the opportunity costs of freely allocated emissions allowances to electricity prices, enabling power companies to get windfall profits. Hence, the competitiveness of the power producers may not be affected if companies have to pay for emissions allowances, which therefore would result in a distributive impact on consumer's surplus and firm's profits. Therefore, these results support the changing in the allocation rule of emissions allowances to the electricity sector, from grandfathering to auctioning, proposed by the European Commission for the next phase of the EU ETS starting on 2013.

As the EU growth is poised to shrink in the next year, the look over the Atlantic on how the USA are performing becomes ever more important. Although, recent growth indicators are optimistic, it is worthwhile to take a closer look at leading indicators of the US recovery. The paper by Kelliher employs a statistical approach to identify which sectors of the US economy are currently the most suitable indicators for monitoring the recovery. A comprehensive list of potential leading indicators is constructed through the application of economic theory. The paper also applies a detailed evaluation and selection procedure, where the most suitable of these indicators is identified. Subsequently, the summary indicators are then used to generate forecasts of future GDP.