

Euro Sustainability

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Introduction

The Euro crisis has disappeared from newspaper front pages. Many experts would agree that some structural problems that caused the crisis and economic imbalances persist, and that economic shocks might cause the crisis to return. But major changes in the regulatory framework and the strong commitment of the European Central Bank make it clear that the Eurozone will deal with economic challenges.

This commitment and the institutional precautions taken are powerless, however, if one or several countries in Europe make a purely political decision. Extremist electoral outcomes may trigger such an exit or disintegration, probably with a small probability, but with one that is different from zero. Waking up on June 24, 2016, the Brexit decision took many of us by total surprise. Similarly, waking up on November 9, 2016, many of us rubbed their eyes and might still not have fully recovered from the news that Donald Trump was elected President of the United States of America. Voting outcomes are not easy to predict, and unexpected outcomes have positive probabilities. What, for instance, if we were to wake up one day, and Madame Marin Le Pen were to have been elected French President? And what if she decided that France should leave the Eurozone? Or what if a newly-elected Italian government were to make such a decision?

The conference entitled: “Is the Euro sustainable – and what if not,” held on March 14, 2018 and jointly organized by ESMT Berlin and the Max Planck Institute for Tax Law and Public Finance, aimed to gain insights into possible political worst-case scenarios. The fallout of an exit, or the disintegration of the Eurozone, may be huge. But does this mean that we are not supposed to study what could and should be done if this were to happen? Isn’t it the duty of scientists to study such a scenario, and a serious omission if such research is neglected? We need to know what such events imply, and what needs to be done should they occur. Contingency actions and the speed at which they can be decided upon and enacted are relevant for the size of the collateral damage of such a contingency.

The conference took several steps to approach this issue. A first step was to assess where we stand from both an economic policy point of view and a pollster’s standpoint. In both his presentation and his contribution to this special DICE issue, Christoph Schmidt

reflects on the structural reforms, progress made, and remaining economic problems. This is followed by a report by Bruce Stokes on Europeans’ commitment to the European Project from a pollster’s point of view. Hans-Werner Sinn analyses the role of Target 2, accounting system for members of the European system of central banks. He has conducted in-depth research into this issue and DICE will publish a more detailed article on the topic in the near future. It becomes clear from this that the Target 2 imbalances are an indicator of economic imbalances within the Eurozone. It also becomes clear that Target 2 imbalances are a relevant and potentially major concern in case of exit or disintegration – a concern that was not considered carefully enough by the founding fathers of the Euro system.

At the conference three scholars reflected on major currency crises in modern history. This issue of DICE features the insights of Luca Einaudi, who assesses the Latin Monetary Union that lasted from 1865-1926 and the major flaws that caused crisis and disintegration. It also includes a report by Jeromin Zettelmeyer on what we can learn about the possible costs or benefits of a euro exit from the 2000-2002 currency crisis in Argentina. Finally, several researchers discuss the cost of an exit and how these costs hurt different countries. This DICE issue contains contributions by two scholars on this topic. Clemens Fuest discusses the difference it makes if a currency union has formal rules and regulations about institutional procedures in case of an exit; and Costas Lapavistas writes on Greek exit considerations and assesses the implications of currency redenomination in this context.

The topics of all of these essays are genuinely unpleasant. And one might think that a conference on how to make the European currency union more resilient would have been more positive. We agree that the reform debate is an enormously important topic, and many of us have already participated in a number of conferences on this topic and contributed to the debate too. While there is not necessarily any consensus on what are the suitable reforms, we all agree on the overall goal of friendship in an ever-closer and more integrated European Union. This, however, should not deter us from studying how to address potential setbacks. Fritz Scharpf (2016, p.48) recently emphasized the importance of research on potential failure: “Unfortunately, the unconditional political and ideological commitment to defend the euro has so far prevented the development of such scenarios or serious analyses of exit options.” He subsequently reinforces this idea:



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“Future historians might come to see the unwillingness even to consider such scenarios as the main deficiency of present political discussions.”

The goal at the conference was, of course, not to search for exit scenarios, nor to promote such scenarios. But much like atomic war or the impact of a mid-sized asteroid, politics is somewhat unpredictable. Things may happen. In our view, this makes expert assessments of such situations and contingency plans in this DICE issue extremely valuable.

REFERENCES

Scharpf, Fritz, 2016, The costs of non-disintegration: the case of the European Monetary Union, in: Damian Chalmers, Markus Jachtenfuchs and Christian Joerges (eds.), *The End of the Eurocrat's Dream, Adjusting to European Diversity*, pp. 29-49.