‘Europe in Crisis’

The CPB on debts and the future of the euro

General conclusions:

- The Economic and Monetary Union (EMU) was more a political than an economic project at the time of its establishment.
- The internal European market has led to a huge gain in prosperity, particularly in the Netherlands. The gain is one month’s salary; and this will increase in the years to come.
- The gain from the introduction of the euro is less clear, approximately one week’s salary.
- The cost of breaking up the EMU and the re-introduction of national currencies would be huge.
- The European debt crisis is just as much a banking crisis as a crisis of government debt and, consequently, cannot simply be attributed to the countries on the periphery of Europe.
- The crisis cannot be solved without a rapid recapitalisation of the European banking sector.
- The EMU is performing less well than the US monetary union because in the US the budgets of the individual member states are considerably smaller and those of the federation considerably larger.
- Opposition to restructuring Greek debt at the expense of private creditors is difficult to understand and contrary to the no-bailout clause.
- Although there are good reasons to transfer powers to European institutions, almost no Member State is excited at the prospect.
- For a structural solution of the crisis, it is essential for one regulatory authority and one European rescue fund to be established for European banks.
- In addition, a permanent European emergency fund should ensure that in times of crisis countries can avoid liquidity problems which are not directly their own fault.
- Finally, there should be preventative European supervision of national budgetary policy.
- Currently, the political stalemate looks hopeless. However, given the history of the development of Europe, this crisis could also lead to an institutional breakthrough.

Conclusions Chapter 1:

- At the time of its establishment in 1992, the Economic and Monetary Union (EMU) did not fulfil the criteria for an optimal monetary union.

- At the time of its establishment, the EMU was more a political than an economic project.

- A number of economists predicted the EMU's current problems twenty years ago.

- The European debt crisis is just as much a banking crisis as a crisis of government debt and, consequently, cannot simply be attributed to the countries on the periphery of Europe.

Conclusions Chapter 2:

- The internal European market has led to a huge gain in prosperity, particularly in the Netherlands. The gain is one month's salary; and this will increase in the years to come.

- This gain in prosperity is due to more trade, greater competition, specialisation, innovation and increased scale.

- The internal European market has made it far more difficult for national governments to favour national champions.

- The curtailment of national autonomy which this required, has made the European institutions vulnerable to political criticism from Member States.

Conclusions Chapter 3:

- The gain from the introduction of the euro - at best one week's salary - is less obvious than the gain from the internal market.

- This gain is due to more trade and investment, and less risk. In addition, the southern eurozone countries have profited from an independent monetary policy.

- The irreversibility of the fixed exchange ratio gives a monetary union a huge advantage over a system of fixed exchange rates, as there was in the past between the gulden and the mark.

- The cost of breaking up the EMU and the re-introduction of national currencies would be huge.

Conclusions Chapter 4:

- The debt crisis has exacerbated the problems of the European banks and the problems of the banks have exacerbated the debt crisis.
- The crisis cannot be solved without a rapid recapitalisation of the European banking sector.
- For a structural solution to the crisis, it is essential for one European regulatory authority and one European rescue fund to be established for the banks.
- Because governments and regulatory authorities frequently procrastinate too long before intervening in the activities of banks, it is essential to have fixed rules which force the regulatory authorities to intervene.

Conclusions Chapter 5:

- The EMU is performing less well than the US monetary union because in the US the budgets of the individual member states are considerably smaller and those of the federation considerably larger.
- The stability pact has not worked; Germany and France have helped to kill it off.
- The no-bailout clause was implausible.
- Fiscal rules are essential, but difficult to enforce and not a solution if the financial markets are not better regulated.

Conclusions Chapter 6:

- Whether a country pays off its debts is primarily a political choice. In that context, it is surprising that most countries regularly pay off their debts.
- If a country gets into payment difficulties, there is no black-and-white distinction between a temporary liquidity problem and a structural solvency problem.
- A permanent European emergency fund should ensure that in times of crisis countries can avoid liquidity problems which are not directly their own fault.
- Rules governing debt work well for American states, but economically these have a far smaller role than eurozone countries.

Conclusions Chapter 7:

- Restructuring Greek debt does not need to go hand-in-hand with Greece leaving the eurozone.

- Opposition to restructuring Greek debt at the expense of private creditors is difficult to understand and contrary to the no-bailout clause.

- Restructuring Greek debt requires an effective emergency fund of a few thousand billion euros in order to avoid Italy and Spain being infected.

- Eurobonds could work; but they will require a far-reaching transfer of the power over fiscal policy from Member States to a European institution.

Conclusions Chapter 8:

- Germany is the key to the solution of the euro crisis, but the country is wrestling with contradictions.

- Eurozone countries are opposed to transferring their powers; in Germany the opposition is particularly strong.

- There is little chance of Germany leaving the eurozone.

- Germany is a proponent of an independent ECB, but its lack of willingness to give power to other European institutions poses a threat to this independence.

Conclusions Chapter 9:

- Although there are good reasons to transfer powers to European institutions, almost no Member State is excited at the prospect.

- Permanent preventative European supervision of national fiscal policies is required. The disciplined operation of the capital market is too slow and unpredictable.

- As fiscal policy requires democratic controls, it does not belong in the ECB. However, currently the ECB is the only body with sufficient plausibility in this respect.

- Currently, the political stalemate looks hopeless. However, given the history of the development of Europe, this crisis could also lead to an institutional breakthrough.

For more information, please refer to the CPB-website.
'Europe in crisis' can be orderered at Publisher Balans (webshop), and is available from 2011, November 15. Price: € 18,95.