

Euro Tragedy - comments

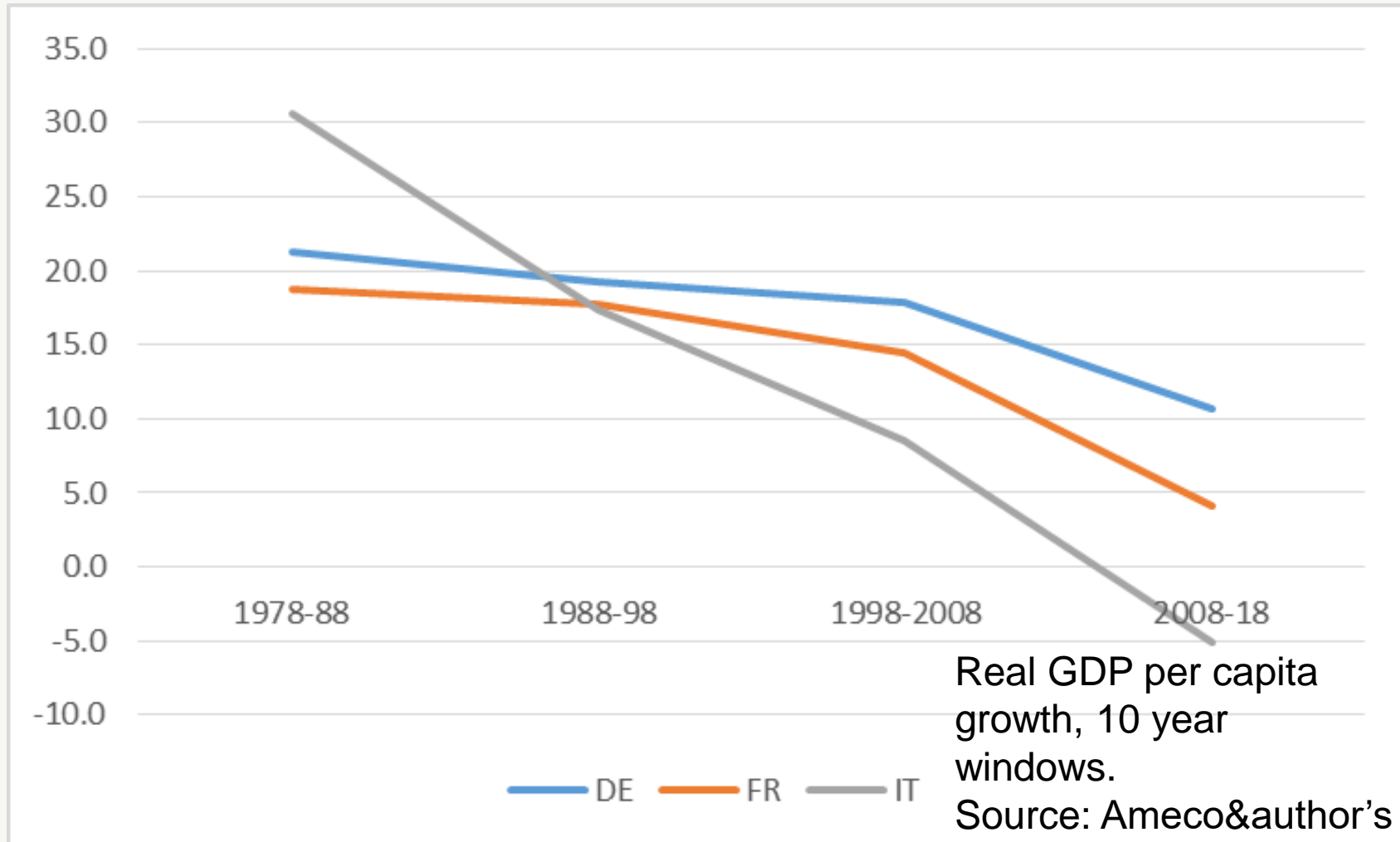
Guntram B. Wolff

Kohl's Euro

- Kohl did see the euro as the way to anchor Germany in Europe after **reunification**.
- He was also convinced that Europe would grow together and get closer politically, it would not end someplace else
- He clearly was disappointed by the current German chancellor, see for example one of his [last interviews in 2011](#).
- What Kohl never accepted was that conservative Germany never warmed up to the idea of sharing fiscal sovereignty. It actually never liked the idea of sharing monetary sovereignty.
- And since monetary and fiscal sovereignty are intrinsically linked (and at some level become the same), the euro remains full of this intrinsic tension.



Italian fault line but is it the euro really?

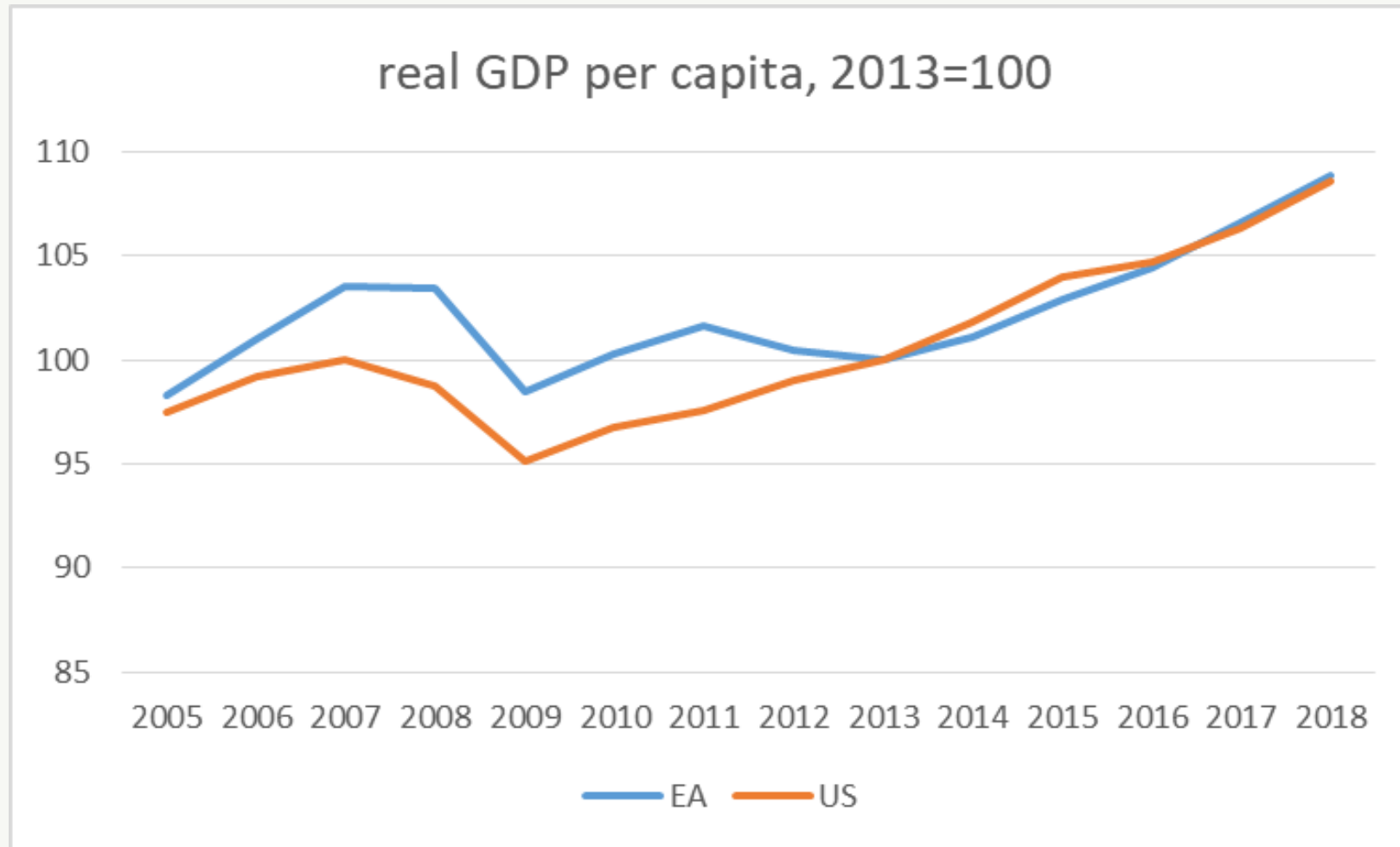


Italian employment is now higher than in 1998. Unemployment rate is lower.

Major national political problems, including bad justice system, education system, corruption and major problems with credit allocation.

Empirical literature provides at best weak evidence that devaluations sustainably boost GDP.

Euro area underperformance, 2008-13



AMECO data
base, RVGDP

2008-13: a period of severe policy mistakes

- Monetary policy mistakes (could have happened without euro)
- The delayed and fragmented dealing with banking problems (could have happened without euro but also has euro design problems)
- The absence of a lender of last resort (a real design failure of the euro)
- The delayed QE (a real design failure of the euro)
- the excessive austerity (mostly a result of the missing lender of last resort)
- The absence of a euro area fiscal stance (a real design failure of the euro)

Solutions depend on the ECB

- Draghi on 14 June 2018: “APP is not disappearing. It remains part of the tool box. It is a new part of monetary policy and it remains a normal instrument of monetary policy”
- OMT is and remains central.
- Centralized banking supervision has helped.
- BRRD and single resolution board & fund do make a positive difference

The sovereignty issue...

- ... still remains the crucial issue
- The OMT/ESM fix is probably only possible solution but weaker countries find it to restraining while many in stronger countries find it too generous.
- The question is whether stronger countries will fulfil Kohl's dream and weaker countries will address their deep weaknesses.
- For now, no willingness to shift is visible. Euro area therefore will remain more fragile than currency in single country.

Conclusions

- A wonderful book, focussing on the right issues.
- Rightly sceptical on many technical and administrative fixes...
- ...but proposed solution of letting countries free is illusion as fiscal sovereignty is already lost.
- Inconsistent with euro membership.
- Europe ended someplace else but history remains in the making and the main responsibility for the future remains with Germany.
- The external challenges certainly increase the importance of succeeding, also for Germany.