

TW Notes on

David Marsh Europe's Deadlock:
How the Euro Crisis Could Be Solved
- and Why It Won't Happen
Yale Press 2013

"History shows us how periods of
unstable equilibrium can last a
surprisingly long time" p1

"There is a ~~whole~~ hole in the heart of the
currency. No one is in charge" p2

The politicians and technocrats in
charge of the euro often suffered from
"muddled thinking, lack of imagination,
and ~~the~~ straightforward incompetence" p2

The policies to deal with the crisis
are likely to result in "neither
resounding success nor catastrophic
failure, but instead for a further
drawn-out phase of standoff,
slowdown, and stalemate" p3

"Countries used the easier conditions
of the single currency to do what
people, banks and institutions always
do when interest rates are... kept low -
to live beyond their means" p4

"The European leaders who... lent political impetus to monetary union recognized that the monetary union of 1999 was incomplete... Monetary unions tend eventually to collapse unless they are embedded in a coherent political framework that allows for effective collective action and burden sharing"
Many warned against "overloading the single currency project with exaggerated hopes and expectations" p14

Helmut Kohl that monetary union without more towards more political unity would be building a "castle in the air" p14

The objectives were to 1 promote peace in Europe, 2 promote trade and investment 3 create a competitor to the dollar + 4 curb the power of a reunified Germany.

German agreement to the euro was a condition for European support for reunification p16-17

The prediction of ~~Kohl~~ Ralf Dahrendorf that the euro would split rather than unite Europe "have become a reality" p20

The EC calculated in 2009
that a competitiveness gap of around 30%
~~had~~ was present. p 27

"From the beginning, monetary union
was imbued with a metaphysical
touch... it would face many nations
with proud and disparate histories
into a benevolently unified force" p 32

This "soaring idealism" was
personified in Jean-Claude Trichet
"few [of the bloc's members] realized
that the new monetary unit was in
fact a foreign currency" p 33

"The euro is being ~~shored up~~ shored
up by complex contrivances for
artificial life support" p 34

"The very absence of financial market
fluctuations snuffed out the possibility
for adverse capital flows to impose
corrective pressure for errant governments
to change policies" p 37

Among the miscalculations on
which the euro was based was neglect
of potential problems with private
sector debt leading to the
possibility of credit crises p 40

A "fundamental failure ... was lack of awareness of the potential risk of rising balance of payments disequilibrium" p 43

"Not one of the politicians who agreed the Maastricht Treaty understood what they were doing" Dutch
Dutch central banker Andreessen
p 43

They assumed BoP surpluses and deficits within the Eurozone would be self-financing so the ECB didn't publish data for the individual countries BoP, only for the zone as a whole. Otmar Issing raised concerns about the lack of risk premia in interest rates

"The prime purveyor of ~~an~~ unbridled optimism was the European Commission" p 44

In May 2008 it ~~published~~ published a 328 page booklet with just 2 pages on growing external imbalances

It argued "Governments coordinate their economic policies to ensure that all economies work harmoniously together" p 44

Trichet praised the convergence of interest rates that had caused a moral hazard problem. p 46

Mario Draghi's 'all it takes' speech included "Within our mandate"

Late July 2012

Many assumed it meant agreement with the Bundesbank to prop up weak countries by buying bonds.

"The euro remains a currency in search of a state..." p 50

It's unlikely that the European Stability Mechanism will grow big enough to meet the potential huge financing needs of Italy and Spain. p 59

That monetary union would bring great constraints was stressed by

Bundesbank president Hans Tietmeyer

"Such caveats were largely ignored..." p 60

The German view is that the markets underpriced debt yields because of moral hazard. p 63

"Fear seldom provides an appropriate foundation for sensible decision-making; yet it has been a constant companion to monetary union..." p 65

Germany's support for Italian entry was based in part on fears of currency depreciation and more competitiveness of Italy if it stayed out p 66

Germany's economic interests are increasingly outside of the euro zone.

BRICs, Poland, etc p 69

"Tax cuts in Germany very often lead Germans to save more" because of concern that taxes will rise in the future.

There's the same effect for public expenditure
TW] i.e. Ricardian Equivalence p 71

"Germany's relations with France have been a story of fluctuating political tandems" p 75

France needs an outwardly robust Germany to hide its own decline. For Germany France helps it hide from the rest of the world the rise in Germany's power p 76

France and Germany have very different ideas about the meaning of increasing economic governance. Germany sees it as a coordinating body for more rules. France's view is less clear but wants discretion and a watchdog on the ECB p 78

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The Bundesbank still has a good deal of veto power

"The Maastricht Treaty was a complicated operation with a single objective" to abolish the D-Mark" p 8

~~The~~ only Antonio Fazio when head of the Italian central bank argued against Italy joining the euro because Italian companies would quickly lose competitiveness p 87

Measure for banking union are "senseless and necessary" but have become "entangled in intractable conflicts of interests and objectives" ... Steps toward it will be slow and piecemeal. In the meantime, meant time, banking union will remain ... a seductive blend of Utopia and Chimera p 90

The central banks "grotesquely failed to control" credit growth" p 94

The German view is that banking union will require fiscal union. The Bundesbank has always been skeptical about common monetary and regulatory policy.

Schäuble favors a two step approach with the resolution mechanism starting with a network of national authorities

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The IMF's role in the crisis has been "convoluted and unhappy" p 98
They went along with the Greek rescue of 2012 even though it didn't meet their criteria of having a chance for medium term debt sustainability

The IMF's ^{thoughts} ~~more realistic~~ stance "has been prompted by the promotion of more realistic and competent officials to run its European department" p 100
The arrival of Lagarde has also been important May 2011

The IMF has failed to resolve "a festering dispute at the centre of monetary union" - responsibility

— for reducing payments via kolonnes p 100
While the euro trouble

won't be solved they'll remain

apparently under control to avoid a

— world wide financial collapse p 103

The two options for cover are are substantially more aid to the weak countries, a "transfer union" or splitting into a northern and southern currency.

Neither is likely p 114

Whenever others consider Germany to
be strong it is really weak and vice
- versa

Marsh describes six stages in the
evolution of the Euro

The 1st, 1998-2003 was establishing
credibility. 2nd consolidation. 3rd

overconfidence and ECB failure to
monitor growing imbalances 4th

premature triumph, 5th the crisis

late 2009, 6th 2011 'blame game'

- phase p 117

He gives a 10 step plan

It requires a "full-scale political

Union" with centralized economic

agency and a directly elected president

pp 117-119

He expects there to be a continued
muddle