

What is Needed for the Euro Zone After the Euro Crisis?

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I participated to the EUSI-SNU-SciencesPo Summer School 2011, and I could learn it in Sciences Po what happens in Europe. I have summarized what I have learnt focusing on topics related to my major. This is a small essay, but I could experience and study a lot. I am truly thankful to Sciences Po.

European countries have faced the huge crisis. But, the main reason of the euro crisis is European. The interest rates among countries got similar after the euro introduction, but countries did not deregulate enough to adjust their respective competitiveness to stabilize their balance of payments. The countries with surplus of current accounts such as Germany and Netherlands lent much money to countries with deficits of current accounts such as Greece. Since the interest rate was too low for Greece and the bubble happened in countries with current account deficits, this money accelerated the bubble in the countries. Now that the bubble has burst, European countries have come to focus on the competitiveness. Their important agenda is the deregulation.

Adjustment of the business cycle among the member countries would be necessary to take a single monetary policy. This because the monetary ease is effective for a country in recession, but not for a country in boom. As to the monetary tightening, it is not effective for both types of countries. Before the crisis, European countries seem to use fiscal policy to adjust the business cycle. The key issue is the Stability and Growth Pact, which rules that fiscal deficits should be under 3% of GDP and the national debts should be 60% of GDP. European countries use the fiscal policy within 3% GDP fiscal deficits to adjust the business cycle. However the rule has not worked as it was expected. Many members break the rule and the business cycles have never got similar. This makes ECB take a single monetary policy. By the way, there is another way to adjust the business cycle. The way is to reduce the asymmetry of exogenous shock through the deregulation.

Now that the euro crisis happened, European countries start to discuss a rule about strict fiscal discipline. This means that they will not use the fiscal policy to adjust the business cycle making deregulation essential to maintain the euro-zone. Also, the discussion about the strict fiscal discipline is the expression of strong determination for deregulation.