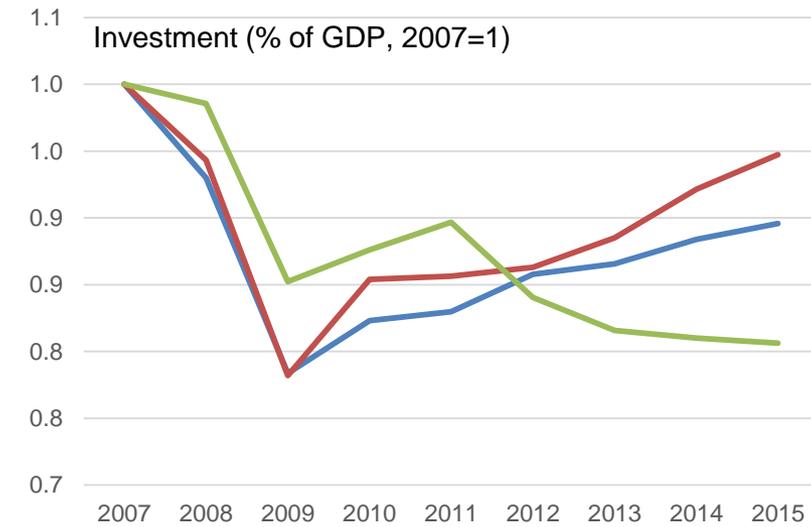
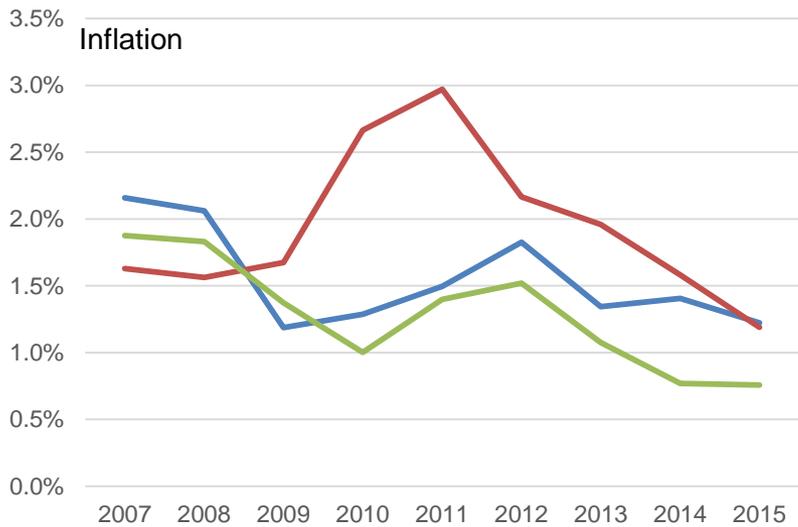
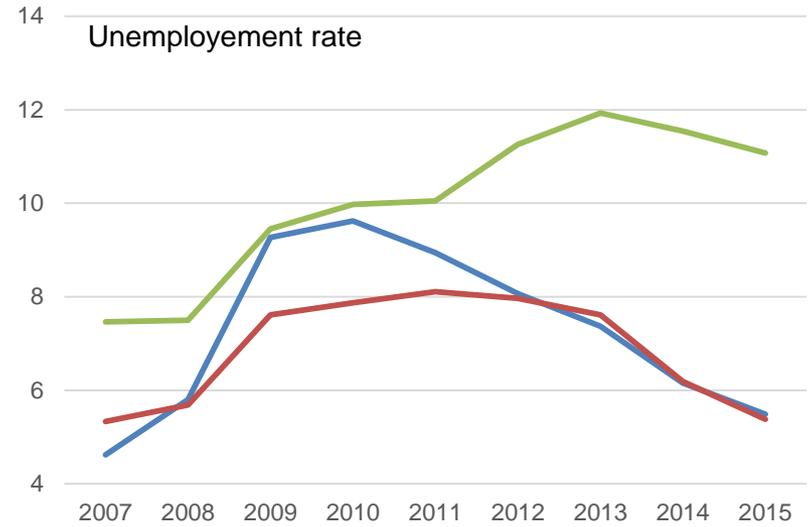
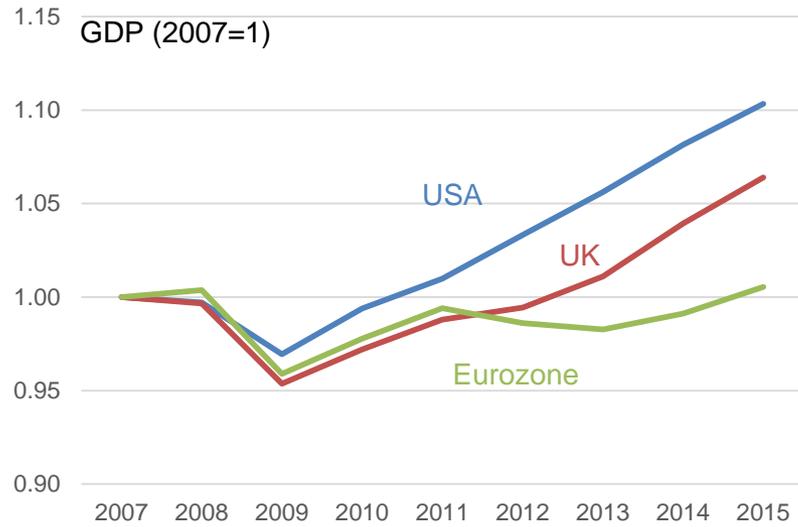


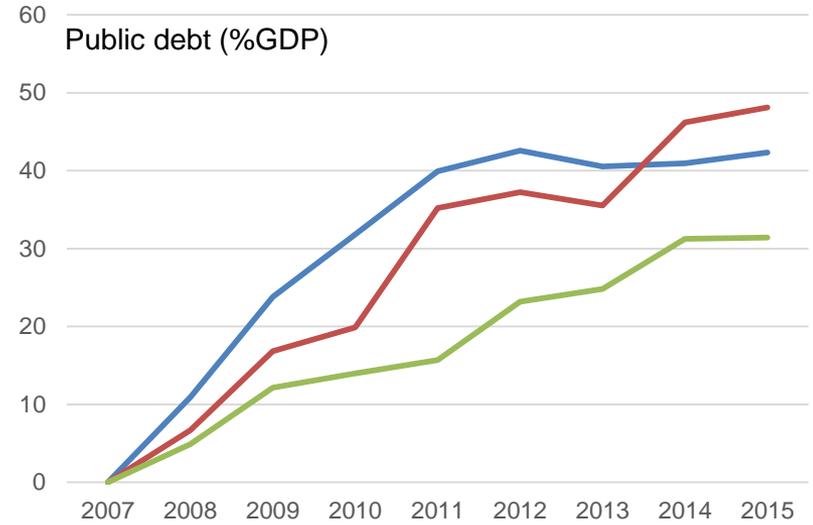
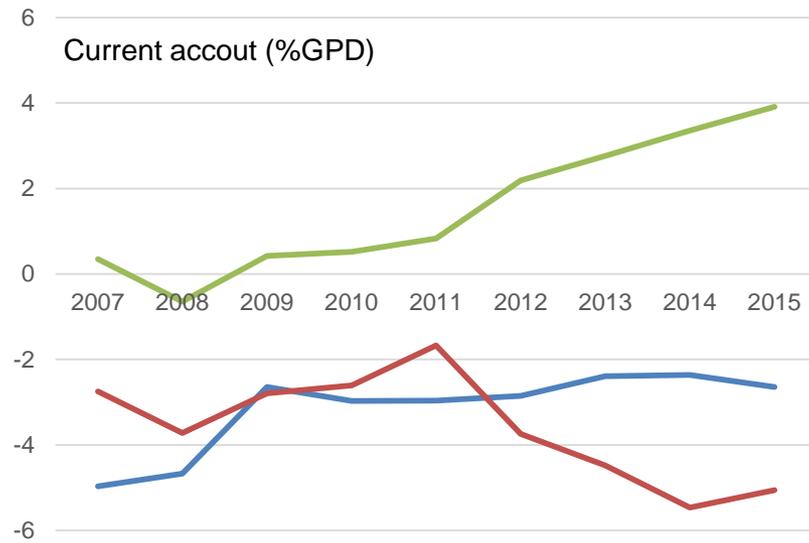
The Eurozone: diagnosis for a dysfunctional eurozone

Xavier Timbeau, OFCE

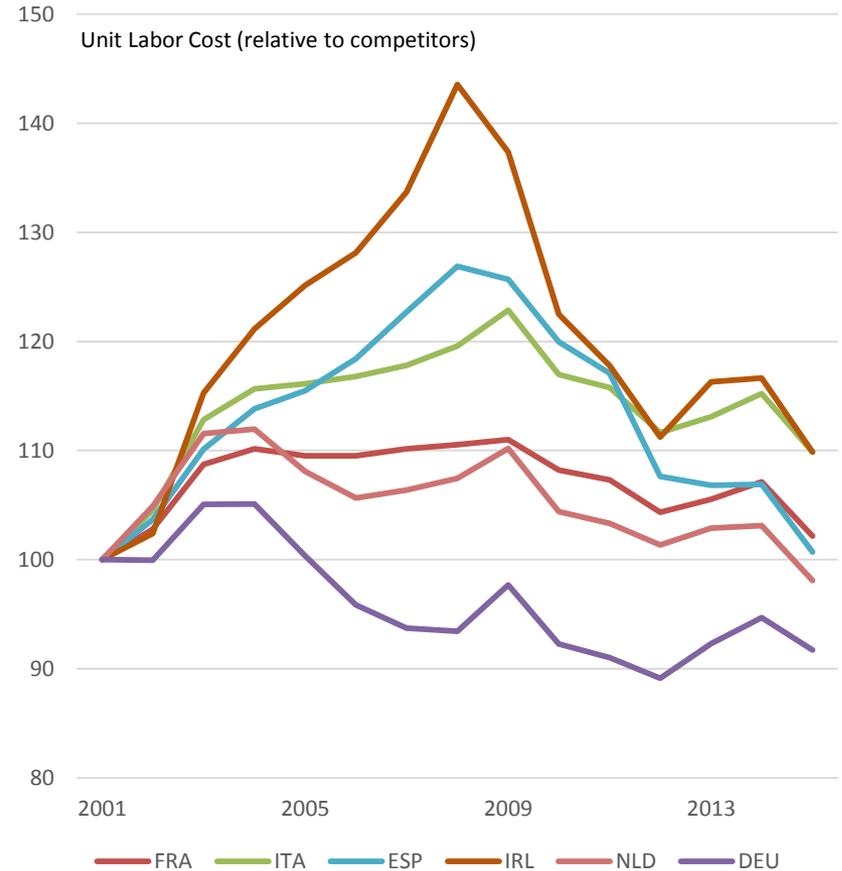
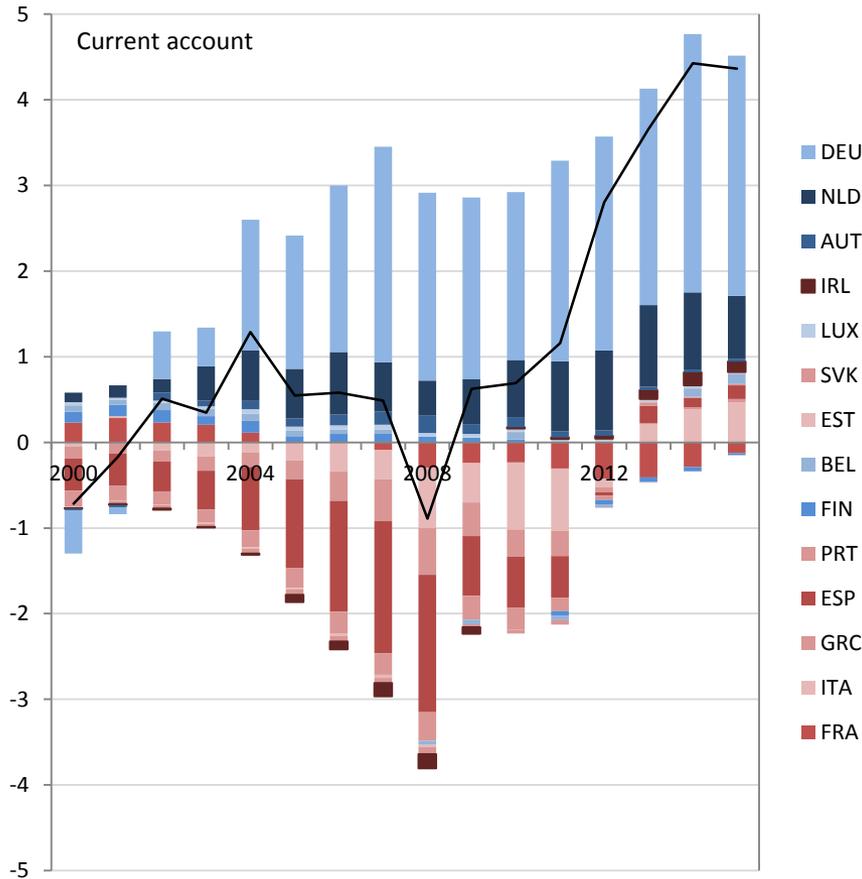
Since 2007 outcomes are not good



Two positive indicators (are they ?)



On going divergence



Social indicators are a disaster in some countries

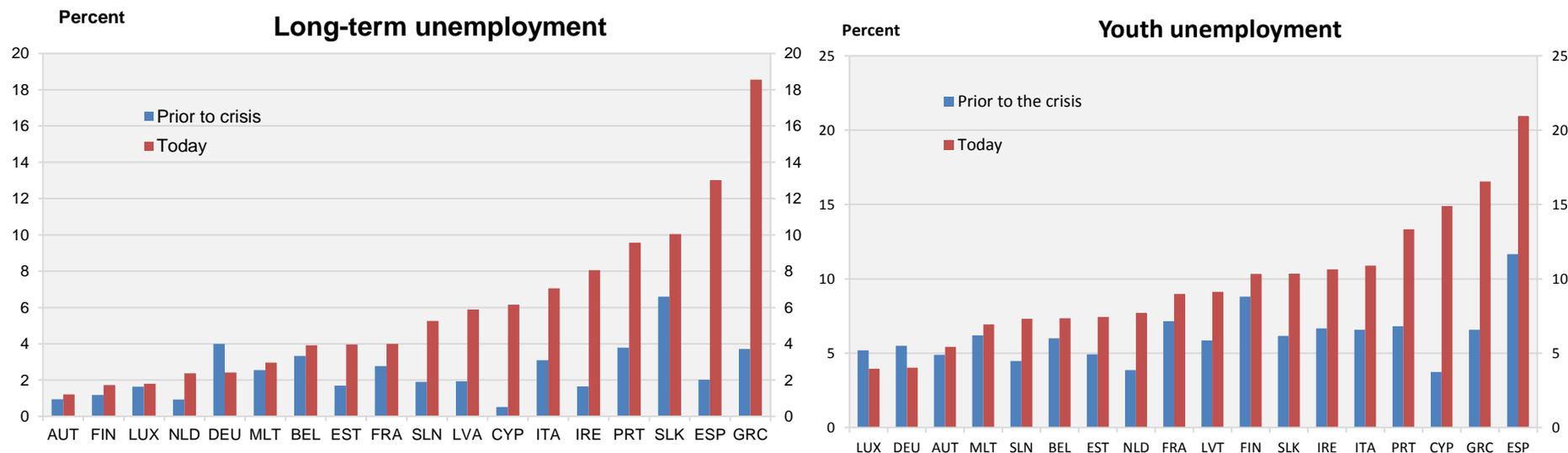
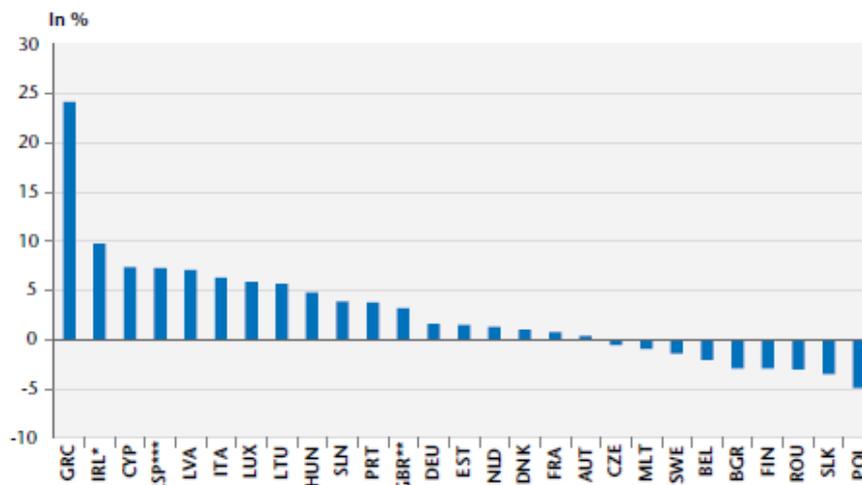


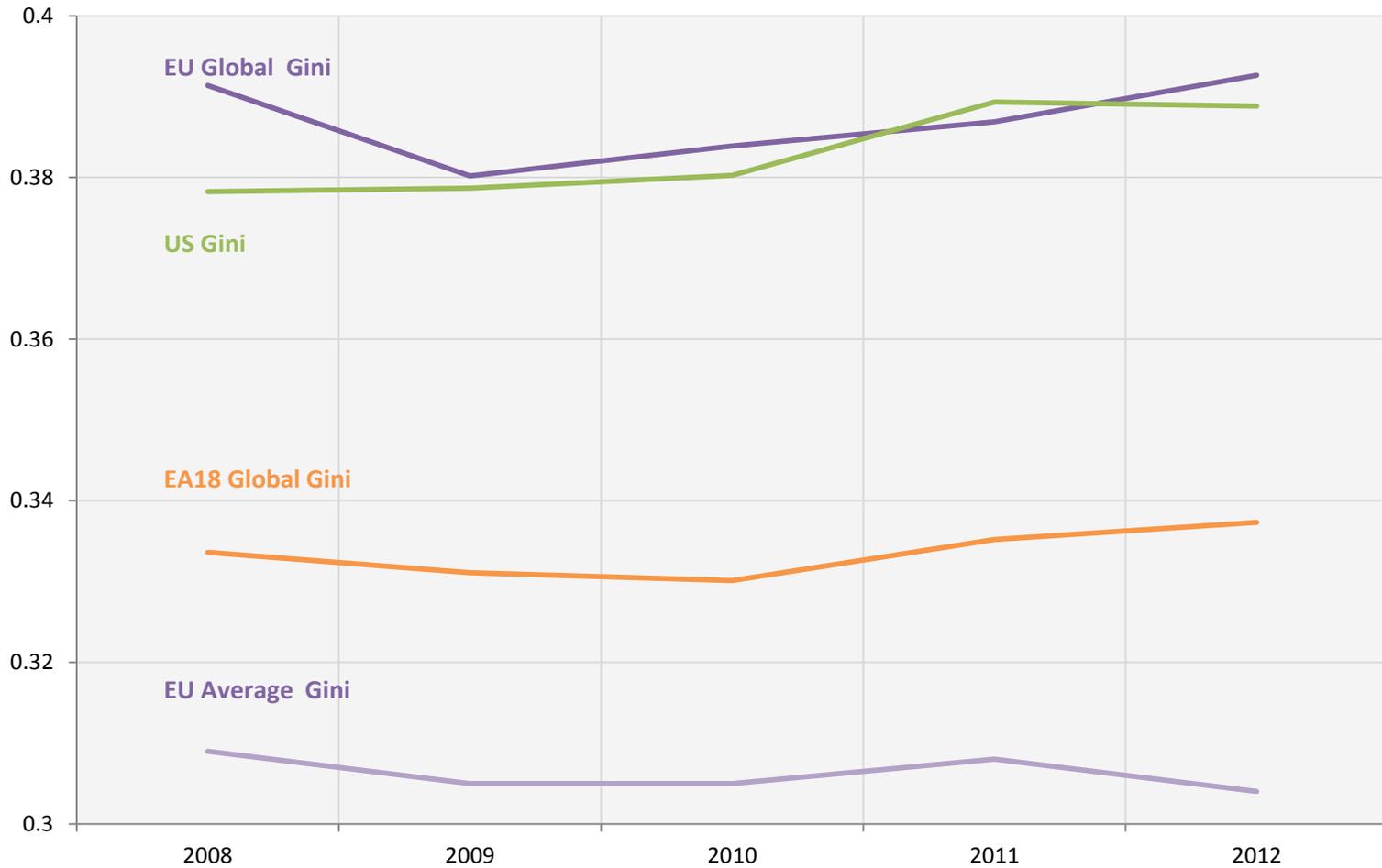
Figure 8. Change in the risk of anchored poverty 2008-2013



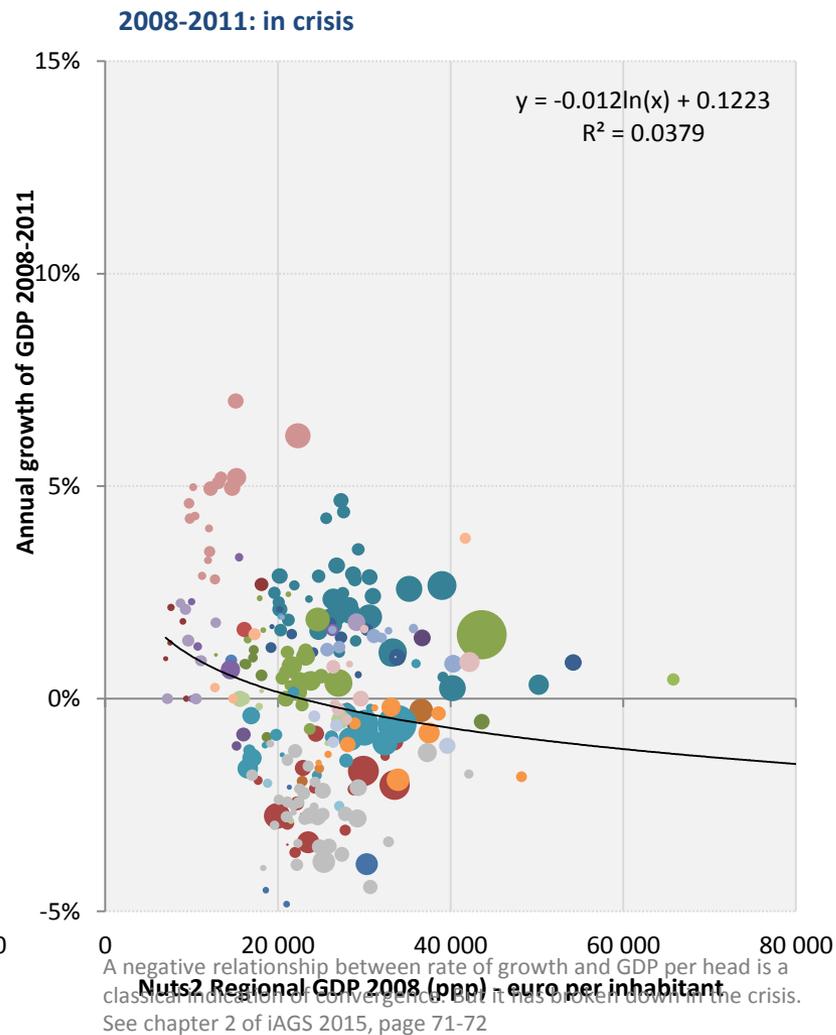
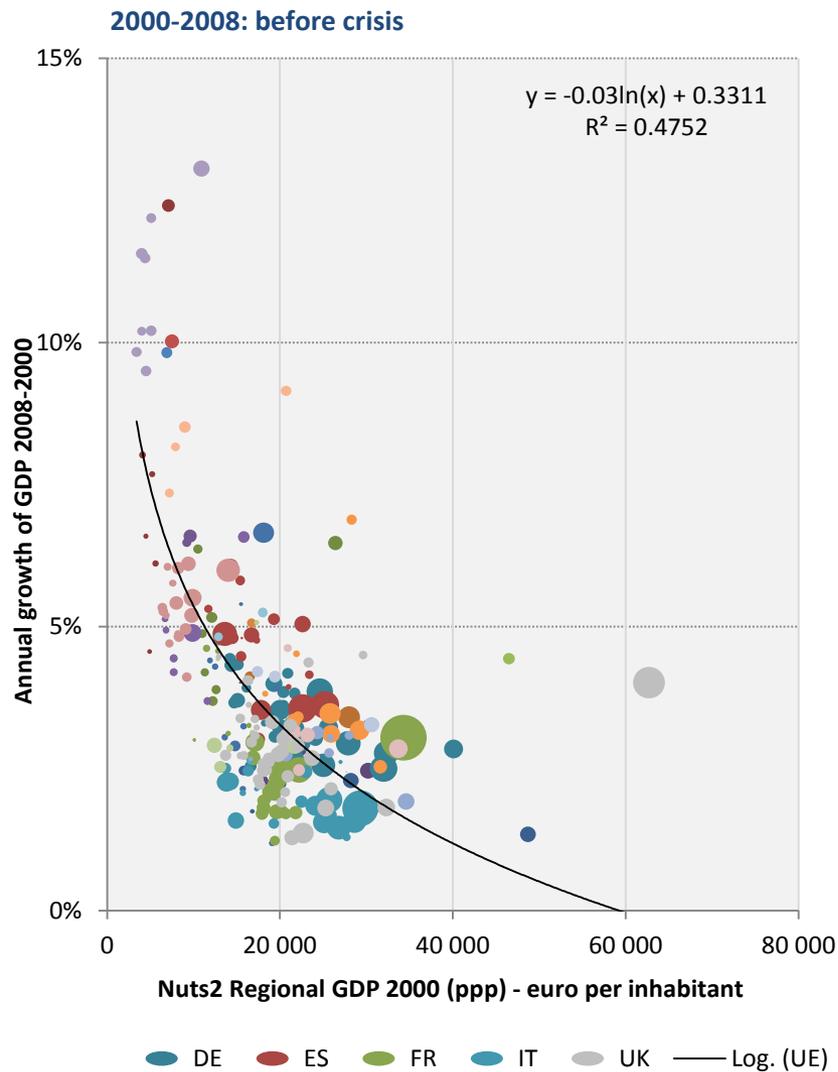
Note: (*) latest data from 2012. (**) latest data from 2011 due to breaks in time series. (***) latest data from 2012 due to breaks in time series.

Source: Eurostat.

Inequality is rising

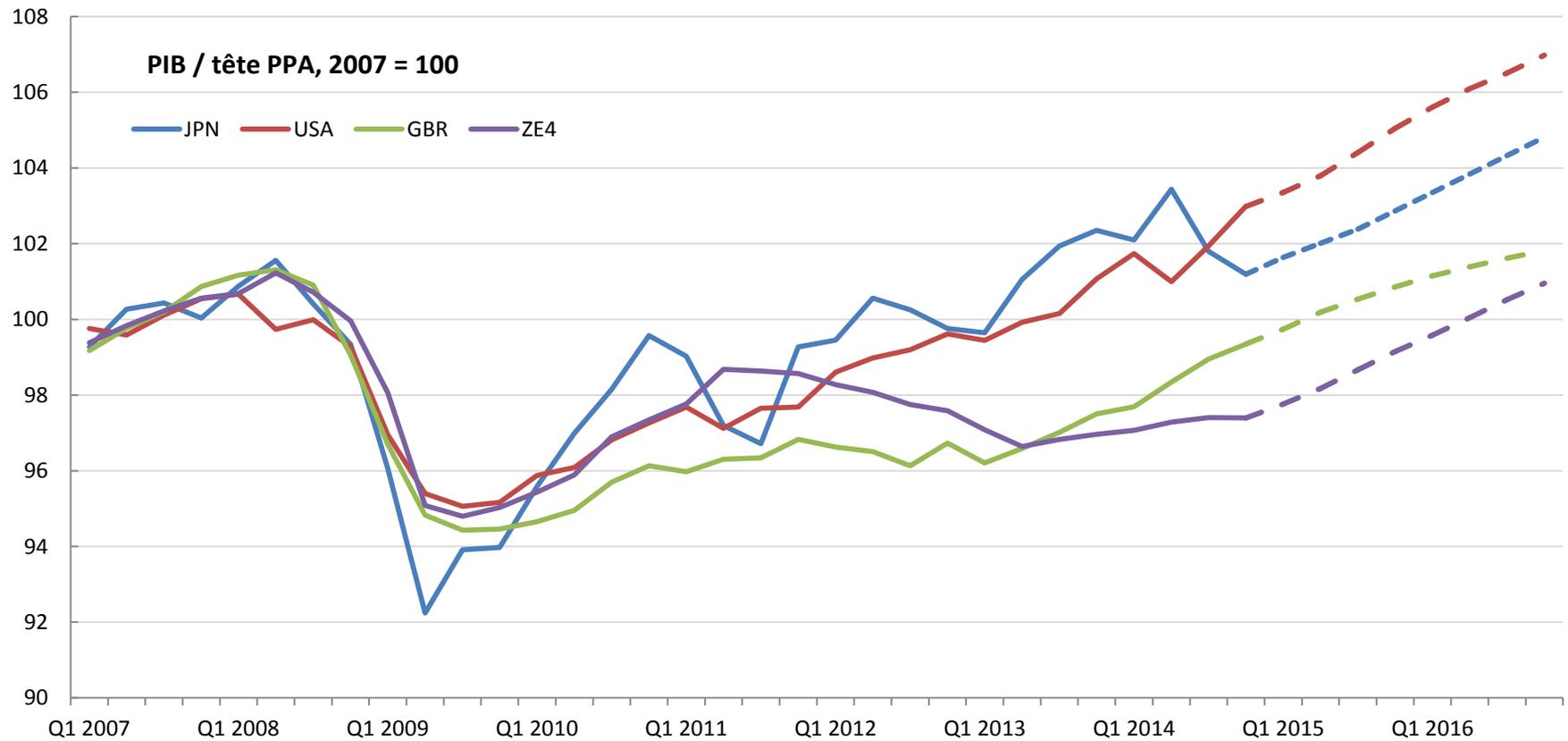


Regional divergence: the end of an inclusive dynamic



The 2008 and EZ debt crisis has been a « test » of eurozone architecture

■ A lot has failed, a lot has been done



Sources: Comptes nationaux, prévision OFCE avril 2015

What will be the future ?

■ If everything works then no strong growth

- No fiscal impulse no juncker plan
- Damaged banks
- Damaged balance sheet
- Reduced investment in the past, need to catch up
- End of external stimulus (oil in 2016, monetary policy in late 2016, euro will pop against the dollar)
- Unemployment is going to weight n wages and inequalities
 - But unemployment is going to reduce
- So recovery, but no magic trick

■ If something goes wrong, than it is another kind of story

In the crisis a lot was done

■ ECB as a corner stone

- Trichet letter on fiscal consolidation against ELA (11/2010 Ireland) (Italy 2011? Greece 2011? 2015, Cyprus 2013)
- Mario Draghi, « What ever it takes », OMT, Banking union, no more sterilization of SMP, 2000b€ balance sheet, LRT0, tLTRO, QE
 - Bazooka on the table,
 - Political and legal discontent

■ From FESF&MESF to ESM

- FESF intergovernmental, 440 b€
- MES, 700 b€, intergovernmental, unanimity, limited liability, some national parliament ceiling
- Conditionality

■ Banking Union

■ Fiscal compact

- More rules, stricter, more complex: who understand that ?
- National constitution (or fundamental law) modified for automatic correction of fiscal deficits independent offices

■ Juncker Plan

But it is incomplete and fragile

■ More rules when we need to adapt to unexpected situation

- Debt rule plus deflation = more frontloading of fiscal consolidation, fueling deflation
 - Possibility of an infinite stagnation
- Rules are complex and rigid
 - More legal interpretation of rules, will increase defiance between member states and distrust by citizens
- Rules are unrespected (plus inequality of states)

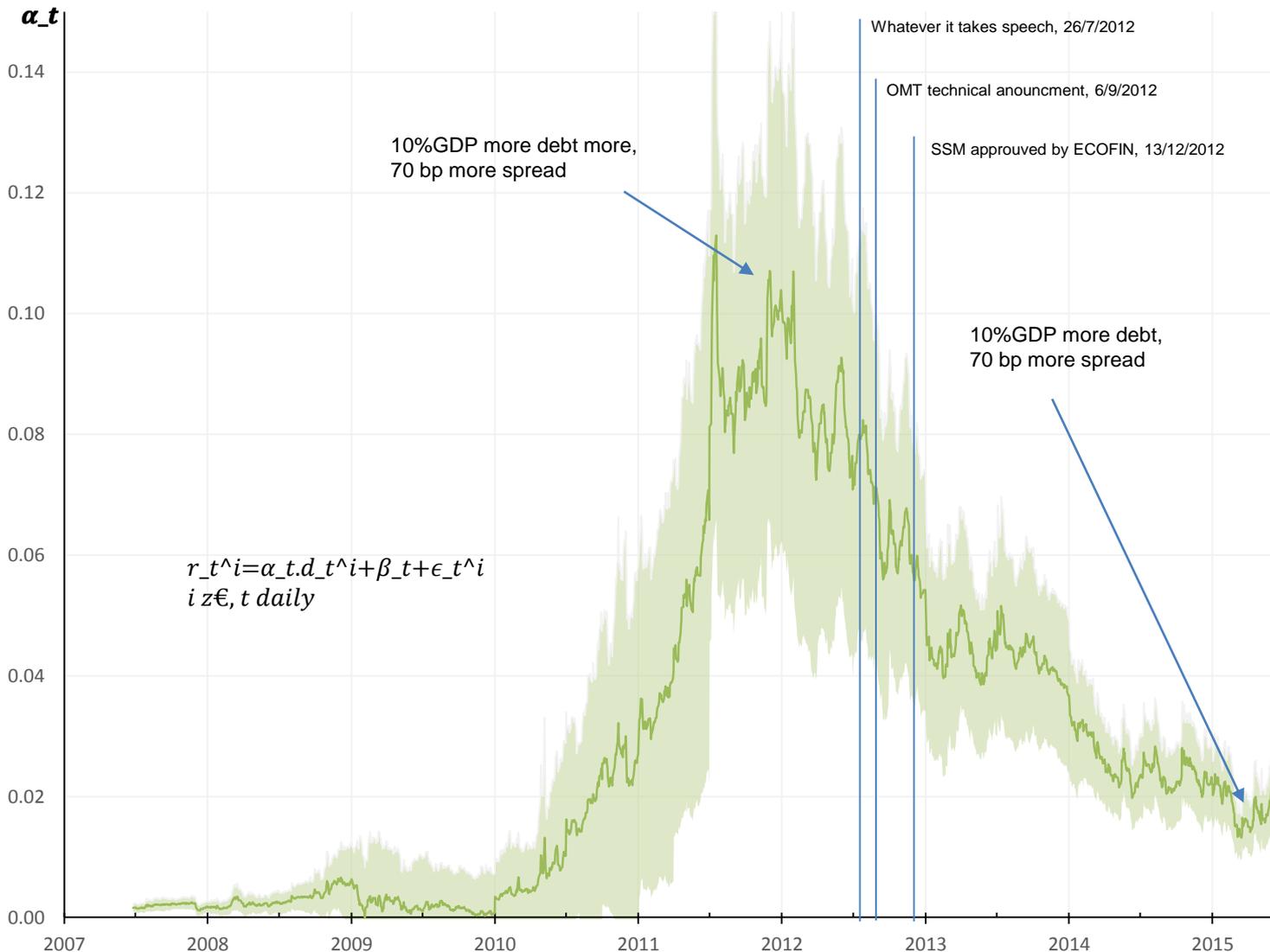
■ Unsolved questions

- Banking union is asymptotic (in effect to the limit) and refusing the legacy
- Greece is an issue with no positive outcomes
- No coherent fiscal policy, frontloading is the rule, fiscal space is not going to be used, rebalancing of current account desequilibrium is going to be done with deflation pressure
- ECB is under a lot of questioning (ELA, OMT ruling, QE, no lending to MS)
 - Who is going to decide for some more if everything fails ?

■ Important matters are intergovernmental

- Forever infant democracy in Brussels

All the questions in a graph: market discipline or not ?



Spread reaction to debt is the vicious circle

Based on that fiscal multipliers are negative (expansary fiscal consolidation), fiscal consolidation brings down activity, but reducing sovereign rates, it eases the budget. No doing so increases rates and bring down (harder) the economy

Is it possible to have fiscal discipline in a monetary union based on markets (that can panic) ?

If not how do you implement fiscal discipline ?

How do you implement such a fiscal discipline (market based or not) and guarantee democracy ?

The next political step: completing euro

■ A series of converging proposition : the lure of technocracy

- Report by the 5 presidents
- A Blueprint for a deep and genuine Economic and Monetary Union
- Padoa-Schioppa group, Bruegel
- Fiscal Union, Banking Union, Financial Markets Union, Tax and social convergence, democratic legitimacy through information/approval of the parliament

■ Other proposals: building democracy

- Joschka Fisher, 2000, eurozone chamber/parliament
- Habermas
- *Glieneke group*
- Manifeste pour une union politique de l'euro
- European republic