

Aktuelle Forschungsfragen der internationalen Makroökonomie

What Eurozone does Europe need?

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Summary: The euro area crisis seems to be behind us, but there is an intensive discussion about what can and should be learned from it. The questions are as broad as they are crucial. Do we need more or do we need less Europe? Is the lack of a "political union" a fundamental flaw the currency union will have to overcome—and at what time horizon? Does the euro need at least a "fiscal union" and how could it look? Or would the kind of fiscal risk sharing that is common within nations states create even more problems and make future crises even more likely? Can a "one size fits all" monetary policy work in Europe with its heterogeneous product and labor market institutions? The seminar will discuss the larger lessons from the crisis and the principles on which these and other questions can be answered.

First meeting: October 15, 2014; 3 pm (s.t.); Hörsaal D (Henry-Ford-Bau)

“Blockseminar”: December 6 and 7, 2014; Kaminzimmer (Boltzmannstraße 20); schedule follows later

Requirements: Participants will come together for an intensive 2-day *Blockseminar* on December 6 and 7, 2014 to present and discuss preliminary drafts of their papers to be submitted by **November 22, 2014**. Final papers are due by **March 31, 2015**. Papers and seminar presentations will be in English, but seminar discussions can also be conducted in German, as needed. Papers will generally have a focus on economic policy, but can take on a more theoretical or empirical focus in line with the topics selected.

Enrollment: Application until October 17, 2014: Cordula.Arlinghaus@fu-berlin.de. Please state three preferences (1st, 2nd, 3rd) regarding the topics below.

Topics:

Crisis recount

1. *What caused the crisis?* There is no lack of explanations—from missing fiscal discipline to the shock of lower interest rates brought by the euro's introduction and the global collapse of financial markets after Lehman. But which arguments matter more and for which countries?
2. *What ended the crisis?* As markets panicked and sovereign spreads skyrocketed, governments, central banks, and global institutions such as the IMF, scrambled for solutions. From the “Troika” to “ESM,” “Six Pack,” and “OMT,” how did the Eurozone's crisis management framework evolve? What was it that ultimately calmed markets?

Fundamentals

3. *The economics of fiscal risk sharing and moral hazard.* Most currency areas engage in some form of fiscal risk sharing to compensate for the lack of regional exchange rate flexibility, but this comes at the cost of moral hazard. What are the fundamental forces at work and how to weigh their relative importance?
4. *Market and government-provided fiscal risk sharing.* From Germany to Switzerland and the United States, how is fiscal risk sharing institutionalized elsewhere? What are key lessons that these examples hold for the Eurozone?
5. *Factor mobility under a common currency.* Under what circumstances can mobile labor and capital market integration compensate for regional shocks in a currency union? How is the Eurozone doing compared to others along these dimensions and why?
6. *If the U.S. is the more complete currency union, how did it get there?* Many of the fundamental issues said to impair the functioning of the Eurozone—from a lack of factor mobility to the installation of a full banking union and the absence of a common fiscal policy and a common safe asset (e.g., “Eurobonds”)—have been solved for the U.S. How, and how did it get there?
7. *Why is the Eurozone still adding members?* The optimal currency area literature compares the costs and benefits of joining a currency union. Has the balance shifted with the crisis? What does this mean for the EU members thinking about Eurozone membership?
8. *Just how important is the euro?* A long academic debate has tried to give an answer to the question whether the euro has fostered intra-Eurozone trade. What are the arguments, and what do they imply for future Eurozone members?

The way forward

9. *Instilling fiscal discipline.* The Stability and Growth Pact has been reformed and national frameworks are being strengthened along the lines of the German “debt brake.” Will these reforms make a difference or do we need a different approach.

10. *Dealing with sovereign debt*. Do we need a sovereign bankruptcy regime and how should it look?
11. *Banking Union*. Is the Banking Union complete? What has been achieved and what are the remaining problems?
12. *Legal battles*. Constitutional courts at the national and European level continue to shape the way Eurozone is handling its crisis. What are the legal and institutional forces at work? Will they define the future of the Eurozone?
13. *Political union*. Can a common currency area exist without political union? If not, what could be the way forward? What are reasonable models for a political union and what are their pros and cons?

Literature & sources by topic:

(Note: Some of the material is suitable for a number of topics, over and beyond what is advertized below—so browse through more than just the earmarked titles. The * mark particularly recommended overview material.)

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- [3, 4, 9, 10] ECB (2012), Reforming EU governance—Conference proceedings, (http://www.ecb.europa.eu/events/conferences/html/20121312_Ref_EU_Fisc_Gov.en.html)
- [3] Feld, Lars and Steffen Osterloh (2013), Is a fiscal capacity really necessary to complete EMU? Freiburger Diskussionspapiere zur Ordnungsökonomik 13/5. (<http://www.econstor.eu/handle/10419/88113>)
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