

## Seminar for Master Students

### “If the Euro Area Crisis Is Over, Why Is Growth So Low?”

(*Helge Berger, IMF and FU Berlin*)

#### *Creditability*

Master Economics and Master Public Economics: Aktuelle Forschungsfragen der internationalen Makroökonomie, 6 LP

#### *Seminar Topic*

The euro area crisis seems to be mostly over, but growth remains anemic and a number of euro area countries have yet to climb back to the GDP levels of 2007. Employment is finally rising, but unemployment levels remain very high in many countries. Why is this? Some argue that the financial crisis is casting a long shadow, with still-high private and public sector debt weighing on consumption, investment, and ultimately growth. This raises the question why this is a problem in the euro area but not elsewhere. Others point to a continued lack of demand and argue that institutional shortcomings at the euro area level are holding back policymakers and prevent a closing of the output gap. Yet another school of thought argues that weak euro area growth is merely a return to the disappointingly low historical trend owed to a lack of reforms—a trend that the pre-crisis boom had temporarily overshadowed. The seminar will discuss these and related hypotheses and the policy lessons they entail.

#### *Requirements*

- Participants will come together for a 2-day *Blockseminar* on the weekend of October 31 and November 1, 2015. Sessions will be held at [Kaminzimmer (room 202), Boltzmannstr. 20, 14195 Berlin] and last approximately from 9 am to 5 pm, including a lunch break.
- Interested students will indicate their 3 most preferred paper topics by [September 15, 2015] in an email to Dr. Hetschko (Clemens.Hetschko@fu-berlin.de), cc'ing Prof. Berger (under: macropolicy.fuberlin@gmail.com). Prof. Berger will be happy to address any specific questions on the seminar topics under the same email address.
- Expectations for the seminar include:
  - A brief *summary of preliminary findings* (2-3 pages maximum) and *presentation slides* are to be submitted by Friday, October 23, 2015. They will be shared with all participants to facilitate the discussion.
  - Active engagement in the *discussion* of presentations.
  - Preparation and submission of a *seminar paper* by March 31, 2016.
  - Papers and seminar presentations will be in English, but seminar discussions can also be conducted in German, as needed.

## *Paper Topics*

### The “long shadow” hypothesis

1. *The cost of financial crises: what does the historical record say?* There is no shortage of empirical studies documenting that growth suffers after financial crises, both in the short and long term. What are the main stylized facts? Does the post-crisis performance of the euro area fit the historical pattern? Is this true for all euro area members?
2. *Could the recovery be “creditless”?* Once debt is too high and needs to come down, it can hinder growth. Or could there be growth without credit? The answer should look at the empirical evidence documented in the literature (has this been done before?) and reflect on the macroeconomic mechanisms that link credit and growth.
3. *How to reduce sovereign debt without slowing growth (too much)?* Is it better to reduce debt the “hard way” by saving more or is there a case for spreading the burden by going into default? Is there a choice and what are its determinants? Given the different experiences of Greece and Puerto Rico, does the economic cost of sovereign default depend on the type of currency union?
4. *How to deal with private sector debt overhangs?* A recent policy discussion is looking at the role of insolvency reform and markets for non-performing bank loans in reducing household and firm debt. How large is the problem and what are solutions? Has the euro what it takes to move ahead in this area?

### The “lack of demand” argument

5. *Is there a lack of demand in the euro area?* It is easier to talk about the “output gap” (the difference between actual GDP and “potential” output) than to measure it. What are the conceptual issues and how does this impact the decision to provide more or less demand support? How to deal with financial “boom and bust” cycles (as in Spain or Ireland) in this regard? How do these questions feature in the debate about the best fiscal and monetary policy for the euro area?
6. *Obstacles for the common monetary policy.* The argument has been made that the transmission of monetary policy across different euro area countries does not work flawlessly—more so than, for example, in the U.S.A. What are the underlying issues? How important are the ECB’s unconventional policies (such as QE and OMT) in this regard?
7. *Does a common fiscal policy for the euro area require a Fiscal Union?* What’s the case for coordinating fiscal policy in the euro area? Has the Stability and Growth Pact delivered in preventing undisciplined spending? Has there been a common fiscal policy response to large macroeconomic shocks when needed? What are institutional options for introducing a common fiscal policy and what are their pros and cons?

### The “fundamentals have always been weak” view

8. *Longer term growth in the euro area and its drivers.* On most measures, the level of potential growth in the euro area has been declining since the 1990s. Is the experience unique to the euro area? What are the reasons and what can be done about it?
9. *What kind of reforms can lift long-term growth in the euro area?* There is no shortage of analyses linking policies to potential growth, but is there a consensus about what works? Is there an ideal recipe combining certain product, labor market, or other reforms? Would the same approach work for all countries?
10. *The crisis has triggered structural reforms—are they making a difference?* Some countries (e.g., Spain and Portugal) have implement far-reaching structural reforms since the crisis broke. Are they working and what lessons can be learned?

## *Literature & sources by paper topic*

*(Note: The material listed here is meant to provide a starting point. Papers not available online will be made accessible to participants.)*

[1] Laeven, L. and F. Valencia (2008), Systemic Banking Crises: A New Database, IMF Working Paper 08/224.

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[1] Furceri, Davide and Annabelle Mourougane (2012), The effect of financial crises on potential output: New empirical evidence from OECD countries, *Journal of Macroeconomics*, Volume 34, Issue 3, September, 822–832.

[1] Tagkalakis, Athanasios (2013), The effects of financial crisis on fiscal positions, *European Journal of Political Economy*, Volume 29, 197-213.

[2] Abiad, Abdul , Giovanni Dell’Ariccia, and Bin Li (2011) Creditless Recoveries, IMF Working Paper WP/11/58.

[2] Bijsterbosch, Martin and Tatjana Dahlhaus, (2011), Determinants of Credit-Less Recoveries, ECB Working Paper 1358.

[2] Bernanke, Ben (2007), The Financial Accelerator and the Credit Channel, Speech at The Credit Channel of Monetary Policy in the Twenty-first Century Conference, Federal Reserve Bank of Atlanta, Atlanta, Georgia.

(<http://www.federalreserve.gov/newsevents/speech/bernanke20070615a.htm>)

[3] Abbas, Ali, Bernardin Akitoby, Jochen R. Andritzky, Helge Berger, Takuji Komatsuzaki, Justin Tyson (2013), Dealing with High Debt in an Era of Low Growth, IMF Staff Discussion Notes No. 13/7. (<https://www.imf.org/external/pubs/ft/sdn/2013/sdn1307.pdf>)

[3] Trebesch, Christoph, Udaibir Das, and Michael Papaioannou (2012), Sovereign Debt Restructurings 1950-2010: Literature Survey, Data and Stylized Facts, IMF Working Paper 12/203.

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[3] Sachverständigenrat (2015), Sondergutachten: Konsequenzen aus der Griechenland-Krise für einen stabileren Euro-Raum. (<http://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/download/sondergutachten/sg2015.pdf>)

[4] Aiyar, Shekhar, Bergthaler, Wolfgang, Garrido, Jose M., Jobst, Andy, Kang, Kenneth, Liu, Yan, Monaghan, Dermot, Moretti, Marina, Portier, Jean, and Yan Liu (2015), Policy Options for Tackling Non-performing Loans in the Euro Area, in: *Euro Area Policies: Selected Issues*, IMF Country Report No. 15/205, July 27 (Washington, D.C.: International Monetary Fund), 57-86. (<http://www.imf.org/external/pubs/ft/scr/2015/cr15205.pdf>)

[4] Jassaud, Nadège and Kenneth Kang (2015) A Strategy for Developing a Market for Nonperforming Loans in Italy, IMF Working Paper No. 15/24.

[4] Liu, Yan and Christoph B. Rosenberg (2013), Dealing with Private Debt Distress in the Wake of the European Financial Crisis: A Review of the Economics and Legal Toolbox, IMF Working Paper No. 13/44.

[5] IMF (2015), *World Economic Outlook April*, Chapter 3. Where Are We Headed? Perspectives on Potential Output. (<http://www.imf.org/external/pubs/ft/weo/2015/01/pdf/c3.pdf>)

[5] Berger, Helge, Tom Dowling, Sergi Lanau, Weicheng Lian, Mico Mrkaic, Marzie Taheri Sanjani, and Pau Rabanal (2015), Steady As She Goes—Estimating Potential during Financial ‘Booms and Busts.’” IMF Working Paper (forthcoming).

- [5] Rabanal, Pau, and Marzie Taheri Sanjani (2015), Financial Factors: Implications for Output Gaps, IMF Working Paper WP/15/153.
- [6] Ciccarelli, Matteo, Angela Maddaloni, and José-Luis Peydró (2013). Heterogeneous transmission mechanism: monetary policy and financial fragility in the eurozone. *Economic Policy*, 28(75), 459-512.
- [6] Al-Eyd, Ali and Pelin Berkmen (2013), Fragmentation and monetary policy in the euro area, IMF Working Paper WP/13/208.
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([https://www.imf.org/external/np/res/seminars/2014/arc/pdf/fratzscher\\_loluca\\_straub.pdf](https://www.imf.org/external/np/res/seminars/2014/arc/pdf/fratzscher_loluca_straub.pdf))
- [7] Allard, Celine et al. (2013), Towards a fiscal union for the euro area. IMF Staff Discussion Note 13/09. (Note the technical annex.)  
(<https://www.imf.org/external/pubs/cat/longres.aspx?sk=40784>)
- [7] Wolff, Guntram and André Sapir (2015), Euro-area governance: what to reform and how to do it, Bruegel Policy Brief 2015/01.
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(<https://www.imf.org/external/pubs/cat/longres.aspx?sk=41742.0>)
- [7] Sachverständigenrat (2015), Sondergutachten: Konsequenzen aus der Griechenland-Krise für einen stabileren Euro-Raum. (<http://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/download/sondergutachten/sg2015.pdf>)
- [7] Blanchard, Olivier, Christopher Erceg, and Jesper Lindé (2015), Jump-Starting the Euro Area Recovery: Would a Rise in Core Fiscal Spending Help the Periphery? Sveriges Riksbank Working Paper Series No. 304.
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- [9] Fatas, Antonio (2015), The Agenda for Structural Reform in Europe, CEPR Discussion Paper 10723.
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(<https://www.imf.org/external/pubs/ft/scr/2015/cr15233.pdf>)
- [10] European Commission (2014), Market Reforms at Work in Italy, Spain, Portugal and Greece, *European Economy* 5/2014.
- [10] Varga, Janos, and Werner Roeger (2014), Growth effects of structural reforms in Southern Europe: the case of Greece, Italy, Spain and Portugal, *Empirica*, 41(2), 323-363.