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Good afternoon everyone, welcome to this session on euro, with our three panelists. I am going to present them in their seating order. Olivier Blanchard is now Senior Fellow at the Peterson Institute for International after being Chief Economist of the IMF and Professor at MIT. Ashoka Mody used to be Deputy Director in the International Monetary Fund's Research and European Departments where he led negotiations on the Irish programme, among others. He is now Visiting Professor at Princeton University and has just published a very thick, well-documented book on the euro crisis. I think to this day, it is the most complete book in terms of analysis on the subject as it covers the origins of the euro project and its deficiencies, because it is very critical of the euro itself, or at least of a certain number of hypotheses that were expressed at the beginning which he judged as risky. Last, but not least, Jean-Claude Trichet, who doesn't really require any introduction. We are very happy to have him here with us today, because when it comes to the euro project, I believe he has been there every step of the way. When I say "been there", it might be a little insufficient, or even depreciatory, because he has not only been there, but he has also been a major actor at the centre of this adventure. So, he is also going to contribute to this panel. Ashoka Mody does not speak French and we agreed to conduct this session in English. So, to start up this discussion:

This is the 11th World Policy Conference. I do not know how many times there were panels about the Euro, but we are in 2018, and for seven or eight years at least there have been panels of this sort. Why are we coming back to this issue? Perhaps one reason, to link what we are discussing to what was discussed in previous sessions, is what it takes to become a fully-fledged international currency. Is the Euro such a currency and does it have a chance to become it? That is an important dimension of the project and something we may wish to go back to at some point.

Secondly, there are still discussions ongoing about Euro reform. Initiatives were taken recently, especially a French initiative, there was the discussion and negotiation on a banking union. That has not yet been completed, and the question is about what the priorities should be. Thirdly, we are facing a new situation in Italy, not so much about the sort of short-term disputes between the Italian Government and the EU about the budget but more fundamentally about how Italy has failed in the Euro area, what its options should be, or how its economy can recover within, or some would say outside, the Euro area.

Those are the reasons for the debate. Let me say something about the nature of the discussion we are having and the issue of the priorities. Regarding the nature of the discussion, there are essentially three camps and have been for quite some time. One says it was a bad idea in the first place, that the European countries were not sufficiently integrated or similar to form a currency union. This is a debate that started on the very first day of the project and it is still going on. The second view is that the architecture is incomplete, so it was a half-baked project, as some steps were taken but some important ones were not, and the question then becomes what important elements need to be added so that the Euro becomes much more resilient and much more able to deliver prosperity.

The third is that the design was good but the behaviour was bad, so that policies did not follow what should have been followed after having joined a common currency. That is more a matter of having the right policies at home, the question becoming what incentives are needed to put those policies in place.

Regarding the priorities, there are different views depending on the analysis that is made of the situation. One view is that the priority should be essentially financial, that financial integration, which was definitely incomplete at the start of the Euro and was neglected, especially everything to do with the supervision and resolution of the banking crisis, should still be the priority, and that completing policy integration on the financial side remains a top priority.

The second view is that the fiscal element is missing – budget or fiscal capacity, however you want to put it – for reasons to do with stabilisation, to do with the possibility of having an instrument that would complement the common monetary policy, and to do with transfers. That is the long-standing view that what is missing is the fiscal side.



We should not forget a third element, the macro side. We have the fast-moving issues and the slow-moving dimension, including price and wage adjustment, a build-up in current account imbalances and the resulting assets and liabilities and net foreign asset positions, and that this macro functioning has to be reformed. That brings us into different territory having to do with regional price formation in different countries, the institutions that contribute to wage-setting and price-setting, and perhaps also to investment.

Finally, there is the view that the issue is fundamentally political, and that what we have to address in the current political context are the political institutions that the Eurozone does not have, is not equipped with, and the political dimensions of the problem we face and the political responses to it.

That is a very long agenda, but let me stop here. I am sure we will address some parts of it, so we will skip large parts of it.