

Franco-German Conference

**Overcoming the Debt Crisis and Securing Growth –
Irreconcilable Challenges for the Eurozone?**

03. May 2010, Paris

Venue: **Dexia**
1, Passerelle des Reflets
Tour Dexia La Défense 2
92919 La Défense Cedex (Paris)

Programme

- 09:30 **Welcome**
Anton Brender (Le Cercle des économistes / Dexia, Paris); *Ernst Hillebrand* (FES Paris)
- 09:45 **The Causes of the European Debt Crisis**
Chair: *Christian de Boissieu* (Conseil d'Analyse Économique, Paris)
Ansgar Belke (Universität Duisburg-Essen/DIW Berlin)
Henri Sterdyniak (OFCE, Paris)
Comment 1 – *Wolfgang Münchau* (Eurointelligence, Brussels)
Comment 2 – *Mathilde Lemoine* (Conseil d'Analyse Économique / HSBC, Paris)
Discussion (~40 min)
- 12:00 Lunch
- 13:00 **Cornerstones of a European Economic Strategy to Overcome the Debt Crisis and to Secure Growth**
Chair: *Wolfgang Merz* (Bundesministerium der Finanzen, Berlin)
Laurence Boone (Le Cercle des économistes / Barclays Capital, Paris)
Daniel Gros (CEPS, Brussels)
Comment 1 – *Jacques Delpla* (Conseil d'Analyse Économique, Paris)
Comment 2 – *Jens Bastian* (Hellenic Foundation for European & Foreign Policy
ELIAMEP, Athens)
Discussion
- 14:50 Coffee Break
- 15:10 **Lessons Learned? Outlines of an Improved Institutional Framework for the Eurozone**
Chair: *Pierre Jaillet* (Banque de France, Paris)
Nicolaus Heinen (Deutsche Bank Research, Frankfurt am Main)
Agnés Benassy-Quéré (Le Cercle des économistes / CEPPII, Paris)
Comment 1 *Daniela Schwarzer* (SWP, Berlin)
Comment 2 *Patrick Artus* (Conseil d'Analyse Économique / NATIXIS, Paris)
Discussion
- 17:00 **Wrap-up:**
Michael Dauderstädt (FES Division for Economic & Social Policy, Bonn)
Jean-Paul Pollin (Cercle des Economistes / Université d'Orléans)
- 17:15 End of Conference

About

The Eurozone is currently facing its most severe crisis since the introduction of the common currency. While government debt increased in all member states due to their efforts to fight the recession, the situation in some member states became highly critical. Especially Greece struggles with waning confidence of creditors and investors and is on the brink of default. Ireland, Italy, Portugal, and Spain might face the same threat sooner or later, and it is unclear what effect this will have on the growth dynamics within the Eurozone and on its currency.

Since now the European Union does not seem to have adequate institutions or mechanisms to deal with such a crisis. As EU-funding for insolvent member states of the currency union is officially excluded within the current legal framework financial support would either have to come from the International Monetary Fund or from other Eurozone countries if private investors refuse to buy government bonds. Either solution – or as recently proposed a combination of both – raises delicate questions about who controls and decides about adjustment and consolidation measures then and what this eventually means for the political future of the EU.

Pressing as they are the current events must not distract from the long-term problems from which Europe suffered before the crisis and which contributed to its outbreak – above all the rising trade imbalances and a severe lack of economic and social policy-coordination. But the strategy to overcome the current European crisis appears remarkably one-dimensional:

The standard recipe to fight excessive indebtedness, championed particularly by Germany, consists in a strict course of budget consolidation with a strong emphasis on cuts in government spending. Germany's 'debt brake' is also seen by others as an instrument worth copying and the French president recently expressed his sympathy for it. However, a severe cut of government spending could also imply less overall demand which could bring economic recovery to a sudden halt and plunge European economies into recession again. In particular, restrictive policies in some countries, notably Germany, might aggravate imbalances in the Eurozone and the fiscal position of other member states as they reduce demand for their exports.

A successful process thus requires a stronger coordination of exit strategies, in particular fiscal policies, beyond the stability and growth pact, and possibly new institutional arrangements similar to the IMF for the Eurozone which can support adjustment processes of indebted member states. This presupposes a sound and comprehensive macroeconomic growth strategy for Europe on which there is little agreement yet as the opposition against the French proposal for an "Economic Government" for the Eurozone has shown. Nevertheless, the challenge in the current situation is to take short term measures which allow for a transition to a political framework which enables the European project to grow – together.