

# Euro Debt Crisis

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- Euro crisis: “a fiscal and currency crisis”
- fiscal crisis: deficit in Greece, Portugal, Italy and Spain
- Currency crisis: “it would be better to eliminate the euro”

## Benefits and cost

- In the mid-1990s, UK debated the benefits of euro membership
- enhancements for international trade in goods and services vs. required participation in poor social, regulatory and fiscal policies
- Barro thought then that benefits was greater than the cost
- Barro thinks now that it is an impossible dream

## Why?

- The single money is inevitably linked to a common central bank with lender-of-last-resort powers
- This setup creates important features of fiscal union, showing up recently in bailouts in Greece, Portugal, ...
- The political reaction of the crisis has been strengthen this union

## Fiscal union

- bailout money from the EU and the IMF
- fiscal involvement by European Central Bank
- more EU influence on each government's fiscal policies
- A common currency is leading toward a centralized political entity

## The case of the US

- Is it possible to have a country with heterogeneous populations with disparate histories, languages and culture?
- An example: the US has prospered with fiscal union, despite the continuing federal bailouts of state governments
- In the US, however, the states have long histories of balanced-budget requirements

## A noble experiment

- The euro was a noble experiment, but it has failed
- An exit strategy