A Bridge Towards the Future

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We are engulfed in a crisis that is systemic, and we need to find a way out of this crisis, towards a long-term governance of the Euro area. This governance should follow some principles, which we might be able to agree on easily in the current situation, but the difficulty is to survive until that time, until we will be able to install this governance.

But there is a way to provide a bridge into this longer term. That solution is something that the council I am a member of, the Council of German Experts, proposed last autumn, a European redemption pact. And I am very grateful to have the chance to describe its elements here in this circle.

Why can’t we just jump into a better future?

Let me just step back for a minute and describe the problem. Why do we need a bridge towards the future? Alas, the euro area is suffering from a severe crisis, a systemic crisis, a crisis of confidence, and there is no straightforward solution to this crisis, because three areas are entangled with each other to generate this crisis. These are (i) the area of sovereign debt, where there is a debt overhang in many countries in the Euro area; (ii) the area of ailing banks, with insufficient equity to provide a buffer to shocks, so that states which are ailing have to help banks which are ailing themselves, and both are entangled in a vicious circle; and (iii) many countries in our region have developed a low level of competitiveness over time, and overcoming this low level of competitiveness needs time and structural reform. But you cannot engage in structural reform, if you do not have the time to breathe and to refinance your normal operations.
This is a vicious circle of three problem areas, and you need a strategic solution. You need a solution that addresses all three of them at the same time, because if you do it one at a time you might help in one situation and exacerbate the situation in another area. This credible encompassing strategy needs to do at least two things at the same time. First of all, it needs to specify how the sovereign debt levels, the debt-to-GDP ratios, are brought back within a palatable range. The Maastricht Treaty provided a limit, arbitrary of course, but a limit which might be quite a good one to aim at, 60% of the GDP in each country. The strategy, at the same time, needs to specify what kind of structural reform will be undertaken with what timeframe and what efforts.

This strategy needs to be convincing not only for us, for voters, for politicians, for economists, but also for the potential investors that states and governments turn to in order to refinance their activities. It might be the case that European policymakers and leaders have so far understood the systemic nature of the problem; I cannot look inside their heads. However, they do not really act in this way. They have engaged in a sort of piecemeal engineering, with a stepwise widening of the rescue funds, and this of course is testing the devotion of European leaders, and of European voters also, to prevent a breakup of the euro area in each step.

Every time a new council meeting or a new summit agrees on a new step to widen the rescue funds, to take another step towards political integration, banking union or whatever, you test devotion to the European idea. Therefore, there should be a strategy, which is once and for all set and kept to within the next decade, where all the decision-makers stick to their promises.

Balancing solidarity and competitiveness

This is something I have to say, and I am happy to be able to say it here. It is easy to understand that the German Government is insisting adamantly on a strategy of quid pro quo. I think that without conditionality and without adjustment measures it will be difficult to regain competitiveness. Solidarity and competitiveness have to be balanced, and one way of facilitating that is a bridge, the European redemption pact, which we suggested.

It is a pact with one element, the European redemption fund, which would allow member states, participants in this pact, to take all debt beyond 60% of their own GDP and put it into a fund with joint and separate liability. That is one part of the proposal. However, why is it a pact? There are conditions that come with it, namely the installation of a crisis resolution mechanism at the end of the process, with private sector involvement if
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nécessaire, et en particulier une dévouation à la mise en place de freins à la dette nationale.

Ce fonds serait temporaire et limité en volume, bien que très important, d’environ 2,5 trillions d’euros. Et le 60% de chaque pays qui ne sera pas transféré au fonds devrait être maintenu à 60%, ce qui est seulement possible en utilisant des freins à la dette et en restant à l’accord au départ.

Il y a une question majeure, en particulier du point de vue du Conseil des Experts Économiques Allemands, c’est que les électeurs allemands doivent être convaincus que ça fonctionne, et que les autres joueurs dans le jeu respectent leurs promesses. C’est pourquoi plusieurs fusibles sont inclus, par exemple le prêt de réserves de or et de devises.

Je ne peux pas expliquer en détail ce que ces fusibles sont, mais je pense que tout le monde doit comprendre qu’il s’agit d’une manière de fournir un pont, d’embrasser cela signifie d’embrasser tous les éléments de cela, d’embrasser la responsabilité conjointe et plusieurs, d’embrasser les taux d’intérêt bas qui accompagnent cette décision, et d’embrasser les conditions qui fournissent une meilleure structure pour un avenir prospère.

Par conséquent, en fin de compte, ma réponse est que ni une Allemagne européenne ni une Europe allemande ne seraient suffisants. Il ne serait pas suffisant si l’Allemagne devenait plus européenne, et il ne serait pas suffisant si l’Europe devenait plus allemande, peu importe de quoi cela signifie. Nous avons besoin des deux éléments pour que cela prenne forme pour aller vers une Europe prospère, pacifique et cohérente. Nous avons un pont, mais nous devons embrasser tous ses éléments en même temps, ou il ne sera pas un succès.