

Inside the Euro crisis: an eyewitness account

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Simeon Djankov, Visiting Fellow at the Peterson and former deputy prime minister and minister of finance of Bulgaria spoke about his book *Inside the Euro Crisis: An Eyewitness Account*.

Djankov said that his book had three main narratives. The first is from the point of view of an economist who follows the evolution of the Eurozone from the beginning. This narrative looks at the economic logic of the zone through the eyes of academics who analyze the successes and failures of it, as well as the ideas that were considered but were not used.

The second narrative is that of a finance minister from outside the Eurozone who confronts this crisis. He never expected to spend lots of time saving the Eurozone, but he ended up spending lots of time in Brussels and in some ways it was useless. Djankov said the “punchline” was the European Commission and the European Central Bank were not prepared to deal with the crisis, so we lost 2.5-3 years to discuss possible solutions that were very obvious from an economist’s point of view. He blamed this failure on a lack of leadership – in terms of personalities, who wasn’t clear who the leader would be (ultimately it became Merkel) and structurally it also wasn’t clear. At first, people looked to the ECB, but Trichet said that the bank had had narrow mandate, so politicians would have to make decisions that the ECB would then enact.

Djankov pointed out that the structure of the EU Commission means that there wasn’t a single person responsible for the crisis, but instead, one commissioner was responsible for bailouts, another for the banking union, another for the fiscal union and tax harmonization and so on, which made it difficult to pursue unified solutions. He also questioned the absence of EU Commission President Barroso during many of the finance discussions.

The third narrative of the book, which Djankov described as a secondary narrative, is the viewpoint of a finance minister who also had to deal with the crisis from a national perspective. Djankov discussed how Bulgaria was trying to separate from Greece to avoid banking contagion. He also described how the internal political climate made it difficult to make successful reforms in Bulgaria. He spent many years working on pension reform that succeeded in 2011, but was reversed by the Socialist government in 2013.

Djankov summed up his talk by saying that his observations are still significant because even though Europe has gotten through the worst of the crisis, the larger problems are not being resolved, they are just being pushed off. Djankov said that 2013 was marked by political fatigue and he hopes to raise these issues now so that the new commission considers them as they take over.

Ashoka Mody, a Bruegel Visiting Fellow, raised the following discussion questions about Djankov’s presentation.

- People play a very important role in this story, and you are very critical of some of them. In contrast, he speaks favorably about Jean-Claude Juncker, so please explain why you think positively about him and what you expect from him.

- You were an insider and saw things happen from the inside. When you come out of it, what is the economic lesson you learn? Is it a system prone to delays or half-measures, but ultimately there are compromises made that imperfectly take us forward? Or is it the fact that this all could have fallen apart except that Draghi came in and saved everything?
- A lot of this is centered around how Brussels operates and the role of national interests. How does an incomplete union integrate national interests, or are we structurally constrained to a limited scope of actions so this will always remain a fragile and imperfect institution?
- What Europe needs now is a real growth agenda – how realistic is it? This is a Europe that is aging, not just physically but it has lost its technological dynamism. Can we generate growth? Then within that context, are we at risk of a debt deflationary cycle? The emphasis on growth, which may or may not come, comes with a risk that we may miss that faultline and not be adequately prepared.

Djankov then responded to Mody's questions. He noted that the book was written before Jean-Claude Juncker was nominated, but he believes Juncker will be a very good commission president. At the beginning of the crisis, Juncker was both a prime minister and finance minister and then the head of the Eurozone, and he was very present. He was very interested in the issues of individual countries – he visited Bulgaria a couple of times, was very interested in how Bulgaria was dealing with the crisis, and he was equally engaged in other countries. In the most difficult moments, such as deciding whether to pull the plug on Greece, he was the person keeping it together and without him, Greece would no longer be part of the Eurozone. The thing that most impressed Djankov was Juncker's view that we are in this together and any other thoughts and pushing of national interests is unproductive.

Djankov also said that the EU system is prone to delays, and it is different from having unitary decision-making like the US. He also pointed out that sometimes, decision-making slows down or speeds up to influence countries' national elections, and in the EU there are 27-28 election cycles and 5-6 key ones. Some decisions were successful and show that the system is flexible, but there will always be some delays. It makes it challenging because if we know that it is going to be delayed, we better know the agenda now – in a very tense crisis situation, it's useful to have prior analysis which the commission did not have.

Is there a faultline that we are approaching with high debt, low growth, inflation? Djankov said he's not sure that we haven't passed it already but we're just too tired from dealing with the financial crisis. Outside the banking union, which is still a work in progress, not a significant decision has taken. Problems are increasing and the faultline may be coming.