

ONE EUROPE OR TWO? CAN THE EURO BE SAVED?

EURUS and CES Brown Bag Seminar

Dunton 328, MBA Classroom

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Empirical data is presented to demonstrate significant long term economic structural differences between the European North and the European South e.g. inflation, unit wage rates, productivity, current account deficits.

Data is provided to demonstrate that Greece never met the admission requirement to join the Euro under the Maastricht Treaty before, during or after.

The Euro is fatally flawed – argued by Nobel Laureate Milton Friedman and Nobel Laureate Paul Krugman in astonishing agreement: “how can you have a common currency without a common government?” George Soros came to the same conclusion: “the ECB can provide liquidity but only a central Treasury can provide solvency”.

The current Greek crisis is the inevitable delayed reaction to the diverging structural economic differences, that can no longer be papered over.

The very recent proposal by German Finance Minister Schauble and supported by Chancellor Merkel for a European Monetary Fund (similar to IMF) will not happen as Germany wants the new body to become the monetary police to enforce the Stability Growth Pact under the Maastricht Treaty (previously lacking), while the EU South views the proposed body as a new “sugar daddy”, that will deliver regional grants, subsidies and transfers.

The deleveraging required to deflate the EU South to restore competitiveness with the EU North is so great e.g. estimated by Daniel Gros at 25% reduction in GDP in Greece, that it will not happen.

The only feasible structural solution is that Germany must agree to become like Canada and support long term fiscal equalization payments to southern Europe (as Canada does with the Maritimes) or adopt fiscal policies to encourage German consumers to purchase goods from the EU South.

As Germany is unlikely to agree to either, within 5 years the EU South will be forced to leave the euro and re-establish its own currencies that can then be deflated to rebalance structural differences between the EU North and the EU South.