The Economic Advantages of a Single Currency and its Current Systemic Flaws

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„restating the obvious is the first duty of intelligent men“

Advantages: Single Market related

- Exchange related transaction costs disappear
- No more price distortion, more transparent price comparisons
- Exchange rate uncertainty is eliminated

Advantages: global & political

- Lower risk of exposure to speculative attacks
- Common currency becomes global reserve currency (lower price volatility for importers; possible reduction of intrerest rates)
- Visible symbol of the Union

The Optimal Currency Area (OCA)

- * Early 1960s
- Countries can no longer change the value of their currencies

  In case of loss of competitiveness

OCA preconditions

- Member states have similar business cycles (no asymmetric shocks)
- Member states have similar economic structures
- Labour and capital mobility are high
- Price and wage flexibility
- Sufficient fiscal transfers
- Similar inflation levels

Eurozone - Action is necessary:

- Ensuring economic convergence (economic governance/government)
- Ensuring sustainable debt/GDP ratio (Stability & Growth Pact)
- Some degree of common liability (Eurobonds/Debt Agency/ECB as lender of last resort)

- Improving skills and getting to full employment (education, R&D, taxes)

Dilemmas and challenges

- **Subsidiarity: Economic framework or economic government?**
- **Common liability or common responsibility: Which comes first?**
- **A two-tier Union?**
- **National democracy and the rights of national Pariaments**
- **Tackling the EU democratic deficit**

Dilemmas and challenges

CES publication

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October 2011

The EU at a Crossroads:

An Action Plan

Prof. Hans Geeroms[1], Prof. Wim Moesen and Stefaan De Corte[2]

Policy Brief

What is at Stake?

In 2007 the US housing crisis infected the US economy and, subsequently, the European banking sector. This meltdown within the financial sector quickly became an economic crisis which in 2008 led to further disruptions in the global economy. The public deficits and debts of all EU Member States increased, as a result of which doubt was cast over the solvency of not only European banks, but also some European Member States. At present there is deep concern about the Union's ability to deal with the sovereign debt crises currently being faced by certain Member States.

We believe that it is time to use the crisis as an opportunity to take some bold decisions. This policy brief explains the benefits of the euro as a common currency and provides an action plan for overcoming the current crisis.

In the first section of this policy brief we describe the advantages of adopting a single currency and analyse the origins of the current crisis. We conclude that the advantages of the euro outweigh the costs, but that more economic and fiscal integration is necessary to ensure a positive outcome. In the following sections we present our action plan. We first propose important steps towards real economic governance for the eurozone and those Member States willing to participate. We then develop our proposal for a European Debt Agency (EDA). We are convinced that growth is an important factor in overcoming the current crisis; our views on this issue are described in the last section of this policy brief.

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