

Discussion:

***In the Aftermath of the Euro Crisis:
Lessons and Dealing with the Debt Overhang***

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05/09/2018

Final ADEMU Conference

2 Views on Debt Crisis, Fiscal Union, Eurobonds etc:

- ***The «Southern» View: It's all about financial market imperfections!***
 - Liquidity spirals and market break-downs
 - Contagion
 - Multiple equilibria/bank runs
- ***The «Northern» View: It's all about bad policy!***
 - Moral Hazard
 - Transfer Union = Zero-sum redistribution
- Rich set of «micro» models to support each view
- ***What does core macro bring to the table for this debate?***
 - The benevolent Ramsey planner – no policy distortions
 - Efficient Financial Markets – no market imperfections
 - ***Policy coordination:*** agreement on ***objectives*** and ***economic models***

The Politics of Policy

- Policy proposals are based on specific economic models
- Models serve to defend the modeler's view point...
- ...and perhaps the modelers' or modeler's principal's policy objective?
- Policy advice that is reasonable from one side's perspective need not be reasonable from another side's perspective.
- Policy *coordination*: scientific discussion takes common ground, agreement on model/objectives for granted
- *But did Schaeuble and Varoufakis/Tsipras ever agree on how fiscal policy affects their countries' respective economies?*

Policy or Political Coordination??

- In practice, policy is made based on the model adopted by the policy makers in charge...
- Policy coordination or common policies are about identifying common ground for policy-making.
- But what if such common ground doesn't exist, and/or the policy makers have little interest in finding it
- i.e. Schaeuble's political fortunes depend on not being perceived as giving in to Tsipras and vice versa?
- Far too little work in economics about identifying policies that are «robust», compatible with multiple world views.

Policy and Democratic Oversight

- Even more complicated with fiscal and debt policy because subject to democratic oversight
- Democratic oversight => Politicians are constrained by voter's world views...
- Much more complicated to find common ground for policy
- Much more complicated to have rational discussion even about facts, their causes and consequences.
- How should voters form opinions if (i) their perception of reality doesn't fit with what they hear from «experts», and (ii) there appears to be so little agreement in what the «experts» are saying?