

The euro zone in crisis: challenges for monetary and fiscal policies

By [Catherine Mathieu](#) and [Henri Sterdyniak](#)

The 9th EUROFRAME conference [\[1\]](#) was held on 8 June 2012 in Kiel on issues concerning the economic policy of the European Union. The topic was: “The euro zone in crisis: challenges for monetary and fiscal policies”. The conference was, of course, dominated by the issue of the sovereign debt crisis in the euro zone. How did it come to this? Should the blame be put on mistakes in national economic policies? Must the way the euro zone is organized be changed?

A number of fault lines appeared (*cf.* also the related [Note](#) in French):

- Some believe that it is irresponsible domestic policies that are the cause of the imbalances: the southern countries were allowed to develop real estate and wage bubbles, while the northern countries carried out virtuous policies of wage moderation and structural reform. The southern countries must adopt the strategy of the northern countries and accept a prolonged dose of austerity. For others, the single currency has allowed the development of mirror opposite imbalances: too much austerity in the North, and too many wage increases in the South; what is needed is a convergence where stimulus in the North facilitates the absorption of the external imbalances in the South.
- For some, every country must implement policies that combine fiscal consolidation and structural reform. For others, what is needed is an EU-wide growth strategy (in particular by financing an ecological transition) and a

guarantee of public debt so as to promote a convergence of national interest rates at lower levels.

- Some believe that any new solidarity measures involve developing a Union budget, which means the inclusion of binding rules in the Fiscal Compact; for others, what is needed is the open coordination of economic policies, without pre-established standards.

We provide a report that includes brief comments [\[2\]](#) in a lengthy [Note](#).

[\[1\]](#) [EUROFRAME](#) is a network of European economic institutes that includes: DIW and IFW (Germany), WIFO (Austria), ETLA (Finland), OFCE (France), ESRI (Ireland), PROMETEIA (Italy), CPB (Netherlands), CASE (Poland), NIESR (United Kingdom).

[\[2\]](#) Most of the articles are available at: <http://www.euroframe.org/index.php?id=7>. Selected articles will be published in an issue of the *Revue de l'OFCE*, in the “Débats et Politiques” collection, at the end of 2012. The report reflects the views of the authors alone.