TOUGH CHOICES FOR A TROUBLED EURO
Tonight’s inaugural lecture by the first Regius Professor of Economics

The euro should either be dismantled in an orderly way or the leading members should do what is necessary to make it growth- and employment-friendly as fast as possible. That will be the central message of Nobel laureate Professor Sir Christopher Pissarides, when he delivers his inaugural lecture as the first Regius Professor of Economics this evening, Thursday 12 December, at the London School of Economics.

Professor Pissarides was once a passionate believer in the benefits of European monetary union. He now thinks that either the euro should be dismantled or the direction of economic policy dramatically reversed so as to promote growth and jobs and avoid creating a lost generation of educated young people.

‘We will get nowhere plodding along with the current line of ad hoc decision-making and inconsistent debt-relief policies’, he will say. ‘The policies pursued now to steady the euro are costing Europe jobs and they are creating a lost generation of educated young people. This is not what the founding fathers promised.’

The co-recipient of the 2010 Nobel Memorial Prize in Economic Sciences will outline what needs to be done to bring Europe back to life:

- Brave action in both monetary and fiscal policy: this might well require U-turns from those who thought austerity would have only short-term setbacks and it is likely to cost votes in the rich countries of northern Europe.
- The current split between fiscal and monetary policy is untenable. Under present arrangements, national governments need to recapitalise their banks and insure their deposits. This involves fiscal spending and build-up of debt. Poor bank supervision can lead to a deteriorating fiscal balance.
- Current plans to turn the European Central Bank (ECB) into a supervisory authority must go ahead speedily. We need a single supervisory authority that can dissolve banks when necessary, recapitalise them and insure their deposits. The supervisory authority should be well funded and not have to rely on transfers from governments and the International Monetary Fund (IMF).
- We also need at least some central supervision of individual countries’ fiscal finances. The European Commission does some but it will be more credible if it is done by an independent body – a Brussels-based ‘fiscal policy council’.
- Fiscal austerity is destroying jobs. The troika – the Commission, the ECB and the IMF – and national governments should be softer on austerity. It has created a two-tier Europe: Germany and other northern countries, for which the ECB’s monetary policy stance is about right; and the south, for which it is far too tight.
- We need more investment in Europe. We should learn how to do our fiscal accounts better and exclude investment projects from the one-year horizons of national budgets.
- Because governments will be tempted to classify too much spending as investment, we need a European ‘growth council’ to evaluate which policies are growth-enhancing and exclude them from the budget. It can be as generous or as strict as required by the European Council; either way, it will be a big improvement on the current situation.

ENDS

Notes:
Sir Christopher Pissarides, co-recipient of the 2010 Nobel Memorial Prize in Economic Sciences, is the Regius Professor of Economics at LSE, European Studies Professor at the University of Cyprus and Chairman of the Council of National Economy of the Republic of Cyprus.

Between 1999 and 2007, he was director of the macroeconomics research programme at the Centre for Economic Performance; and he is now Chairman of the new Centre for Macroeconomics at LSE.

He will deliver his inaugural lecture as Regius Professor of Economics on the evening of Thursday 12 December 2013.