

# POLS P-302: Policy Roundtable # 2: The Eurozone Crisis

April 8 & 10, 2019

## **Introduction**

Our goal for this roundtable is to have a policy debate about how to deal with the ongoing crisis in the eurozone. More specifically, we will simulate an EU summit meeting tasked with rescuing Cyprus from its recent banking crises while creating a framework for deleveraging (i.e. - reducing the sovereign debt level) of highly indebted eurozone members, Greece in particular. Thus, the historical period of this summit is circa 2012-13. The goal of the simulated summit is twofold: (1) provide emergency assistance for the Cypriot government to prevent default and (2) create adjustment policies to stabilize the economies of Greece and Cyprus, with the understanding that stabilizing these countries will help prevent crises from spreading further through the eurozone. Embedded in these goals is an implicit assumption that the eurozone should be saved; your groups should consider whether you believe this to be true and how much economic pain your actors are willing to suffer to maintain the currency union. This debate will also help us analyze the political economy of the eurozone by forcing us to consider the following:

- Which societal groups benefit and suffer from a currency union?
- How well are these groups organized politically?
- What sorts of policies are necessary to maintain the euro?
- What are the redistributive consequences of these policies?
- Does a currency union ultimately require greater political union, especially with respect to fiscal policy?
- To what extent are the measures necessary to maintain a currency union desirable and/or politically feasible?

## Preparation

You will be divided into 6 groups of 3-4 students. You may coordinate through the messaging function on the course website, via e-mail, or your online communication platform of choice. Each group will represent one of the following actors:

1. The European Central Bank: **Anon.**
2. The International Monetary Fund: **Anon.**
3. Cyprus: **Anon.**
4. Greece: **Anon.**
5. Germany: **Anon.**
6. France: **Anon.**

Each group should determine its policy position with respect to the following questions before class on April 8th:

1. To what extent can/should the eurozone apply uniform treatment to member countries in crisis? In other words, must we treat Cyprus as we treat Greece?
2. Should countries that end up in crisis be allowed to remain in the eurozone?
3. To keep the eurozone intact, the euro countries must do two things. First, they must provide emergency assistance to Cyprus to prevent bank failure. Second, they must find policy solutions that will allow highly-indebted member countries to stabilize, deleverage, and grow. Greece has already gone through several rounds of bailouts, but its economy remains weak and the Troika (The IMF, the ECB, and the European Commission) continue to monitor Greece's progression along a number of measures of structural adjustment that were conditions for bailout funds. How will the members of the eurozone share in the costs of such bailouts?
  - (a) How should the costs be distributed among taxpayers and markets?
  - (b) How should the costs be distributed between euro countries in crisis and euro countries with stronger domestic financial positions?
4. We will consider three policy proposals in particular:

- (a) Eurobonds, and any resulting conditions such as fiscal union.
- (b) Financial Transaction Tax.
- (c) Bank Deposit Tax.

Each group will write a joint policy brief, *due on the second day of the roundtable*, addressing each of these questions. Policy position papers should be 2-3 pages single-spaced at most. You should organize your briefs to directly address these questions; please have a section header for each four questions. You may wish to look over the Glazer reading I've posted on the course website as well as reputable news sources to formulate your positions. I've included some helpful links to the end of this document.

## **Policy Debate**

In class on the 8th, we will proceed in a two-step fashion. First, groups will establish negotiations among like-minded actors. The IMF, ECB, and the European Commission will conference together to determine how these interagency/international organizations that are more sheltered from direct democratic influence will seek to set the agenda for reform. Greece and Cyprus, as economies in trouble, will conference together to establish a negotiating strategy. France is a bit of an odd-ball and does not fall neatly into a particular conference. It is up to the French team to determine how it wants to conference, and perhaps also up to the other actors to lobby France to join a particular "team." Germany, an economy with fairly low levels of government debt and decent growth, will conference with others after establishing their own negotiating strategy. In conference, actors will formulate policy proposals about how to solve the Greek and Cypriot crises, with an emphasis on whether to enact eurobonds, a financial transaction tax, and whether to require bank deposit taxes to at least partially pay for bailouts.

After this discussion we will begin a larger debate. Each group will have approximately 3 minutes to introduce a policy proposal that emerges from these initial conferences. Following these presentations we will informally debate the merits of the various plans. We will then adjourn for the day.

On the 10th we will begin class with a short period (15 minutes or so) of discussion between the groups based on their written policy proposals. Following that we will have a more open debate for 20-30 minutes. The rest of the class period will try to develop a document that has unanimous approval of the groups.

# Debriefing Document

Each student must *individually* write a 2-3 page single-spaced debriefing document, due one week later (April 17th), uploaded to the course website. In your debrief please discuss the following:

1. The policy debate outcome:
  - (a) Did debate lead to a solution? If so, how close was this the actual policy developments in the eurozone? If it is not close, why isn't it?
2. Member state preferences:
  - (a) How did distributive politics influence the debate?
  - (b) What explains individual state preferences over policies like eurobonds, financial transaction taxes, and bank deposit taxes?
3. Your own assessment of the outcome:
  - (a) Do you think the euro is worth saving? Why or why not?
  - (b) Do you think this outcome would produce long-lasting stability and prosperity?
  - (c) Does this outcome reinforce markets? Democracy? Which should have priority?
4. Process evaluation:
  - (a) Did this assignment add to your learning?
  - (b) Is there any way this assignment could be improved in the future?
  - (c) Did your group share the work burden equally? How did working within a group affect your understanding of the eurozone crisis?

Note: I will be available in my office after lecture on Monday and Wednesday both this week and next. I am also available via e-mail at [wkwineco@indiana.edu](mailto:wkwineco@indiana.edu). If your group needs guidance on any aspect of this assignment please let me know.

## **Additional Resources**

- EuroActiv section on finance: <http://www.euractiv.com/sections/euro-finance>.
- EUObserver section on economics: <http://euobserver.com/economic>.
- NYTimes section on the euro: <http://topics.nytimes.com/top/reference/timestopics/subjects/c/currency/euro/index.html?8qa>.
- Financial Times section on Europe: <http://www.ft.com/home/europe>.
- The Economist section on Europe: <http://www.economist.com/world/europe>.