

# Alternative macroeconomic policies for EMU

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Economy models  
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## Background

- The issues facing the Eurozone
- Arise from design faults rather than ‘bad behaviour’
- Relationship between ECB and national governments
- EMU as a pessimal currency area: PCA rather than OCA
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## Background

- One size fits all problems in the operation of monetary policy in the context of differing institutional arrangements
- The role of ordo-liberalism
- Fiscal policy – the Stability and Growth Pact; fiscal compact – the imposition of common deficit constraints (in principle) without regard to the ‘needs’ of the economy.



## Background

- Current account imbalances
- No regard paid to sustainability of current account imbalance
- Their tendency to widen prior to the financial crisis
- Exchange rate misalignments



## Towards an alternative

- ‘Sensible’ policies and those to address requirements of a single currency in diverse economies



## Towards an alternative

- European Central Bank:
- lender of last resort;
- financial stability objective as key objective;
- political control;
- policy co-ordination



## Towards an alternative

- Fiscal policy: one of ‘functional finance’ rather than ‘surplus obsession’
- Moves to a Federal fiscal policy: unemployment insurance
- National fiscal policy supported by ECB and operated in the interests of the national economies



## Towards an alternative

- Addressing current account imbalances





## Towards an alternative

- Inflation control?
- Should there be Northern euro/Southern euro? Return to national euros?

## Reading

- Arestis, P. and Sawyer, M. (2011), 'The Design Faults of the Economic and Monetary Union', *Journal of Contemporary European Studies*, vol. 19(1), pp. 19-30
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