

The IPC-Bruegel Dialogue on the Future of the Euro Zone

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IPC Karaköy Headquarters

On September 16, Jean Pisani-Ferry, Director of Brussels based think-tank Bruegel, joined Fuat Keyman, Director of Istanbul Policy Center (IPC), Kemal Derviş, Senior Adviser at IPC, and other leading Turkish economists for a roundtable meeting where he gave a presentation titled “The Euro Crisis: Developments and Responses.”

Pisani-Ferry’s presentation focused on the recent developments in the Euro zone and provided an overarching account on the decisions that ultimately led to the revamped European Financial Stability Facility (EFSF) agreement of July 2011. Pisani-Ferry elaborated on certain behavioral and fundamental causes for concern with regards to the weak or failing economies of Greece, Spain, Italy and Portugal. He stated that behavioral problems on part of the EU, such as not acting fast enough, half-way measures, or procrastination in front of growing market concerns have thus far rendered any attempt at helping Greece recover ineffective. Having said this, he underlined that fundamental issues such as the triple crises of banking, solvency and competitiveness have also been hard to tackle due to the absence of a “crisis philosophy” and crisis management system.

In the last part of his presentation, Pisani-Ferry emphasized that the breakup of the Euro zone is not a viable option and suggested alternative ways to ameliorate the situation in the Euro zone, which were opened up to a debate among the

participants. In opposition to Pisani-Ferry’s stance on the Euro zone, Seyfettin Gürsel, Director of Bahçeşehir University Center for Economic and Social Research (BETAM), whose line of argument was informed by the likes of Allen Meltzer and George Soros, argued for the expulsion of economically weak and troubled economies from the Euro zone and the EU.

Kemal Derviş, on the other hand, stressed that in terms of gross asset and liability networks, if Greece defaulted and quit the Euro zone, we would have a larger problem both within and on the outside of Greece. These problems will create serious legal challenges that the EU bureaucracy is not currently ready for. He further stated, “If Greece gets the implementation of some form of July 21st decision, it does not have to go to the markets for quite some time. Therefore whatever happens, the Greek side will be funded. If we keep this in mind, it allows us to isolate Greece, since Greece itself will not trigger a market problem. If the Greek problem is solved with enough firepower, then one gains the time to solve the other problems.” Overall, Pisani-Ferry and Derviş were of the same mind in terms of their positions on what can be called the *isolation versus separation* nexus.

In addition to Derviş’ arguments, Gürsel asked how other European countries and citizens would deal with the EFSF and the European Central Bank (ECB) rewarding the “worst player.” In response to this, Pisani-Ferry pointed out that the Greek were suffering quite a bit and that at the

same time the moral highroad was also about lending. He admitted bailing out Greece would cost taxpayers' money but that it did not have to be done in a way that protects the shareholders of the banks entirely. He also stated that he did not believe the policies that were followed in the recent years to be appropriate in the sense that they protected the shareholders from the consequences too much. Thus, in terms of what can be framed as the *technicality versus moral hazard* nexus, Jean Pisani-Ferry mentioned that in the current situation, the moral hazard with lenders should be taken seriously.

Keyman contributed to the discussion by sharing his insight on the gaining precedence of political considerations vis-à-vis economic ones. At times of crises, nations have begun to bear in mind not only economic concerns but also moral principles and responsibilities that they hold towards neighboring allied countries. "We used to believe in the importance of economics. Governments and actors accepted economy as the primary driver for policy making. However, currently politics is taking over in an era where economic consensus is diminishing."

This conference summary was prepared by the IPC Research Assistant Berfu Kızıltan and the Editorial Assistant Derya Lawrence.