Exiting the Eurozone Crisis

Advantage Financial Conference
Milan, May 12, 2013

Prof. Harald Uhlig
University of Chicago
Department of Economics
Three Problems

1. Unemployment
2. Debt
3. Banks

... but there is an even bigger problem.
Unemployment Rates. Source: Eurostat

- Germany
- Ireland
- Greece
- Spain
- Italy
- Portugal
Unit Labor Costs, 2000=100. Source: Eurostat
Italy
Source: Schmitt-Grohe-Uribe, 2013

Nominal Wage

Unemployment

Source: Schmitt-Grohe-Uribe, 2013
Greece

Nominal Wage

Source: Schmitt-Grohe-UrIBE, 2013

Spain

Nominal Wage

Portugal

Nominal Wage

Greece

Nominal Wage

Source: Schmitt-Grohe-UrIBE, 2013

Unemployment

Greece

Unemployment

Source: Schmitt-Grohe-UrIBE, 2013

Unemployment

Spain

Unemployment

Portugal

Unemployment

Source: Schmitt-Grohe-UrIBE, 2013

Unemployment

Greece

Unemployment

Source: Schmitt-Grohe-UrIBE, 2013

Unemployment
Debt/GDP ratio. Source: Eurostat
Policy Options: if crisis returns

1. Germany pays.
2. ECB pays.
3. Germany exits ("Neuro").
4. South exits.
5. Stick to original promises.
Policy Options: if crisis abates

• “Fiscal stimulus”? No.
  – GDP change per “accounting”
• Reform labor markets.
• Decouple country banks from country debt.
• Clean up banking system.
• Medium/long-term fiscal consolidation.
• Open markets.
• “Fiscal devaluation”
• ECB: 4 percent inflation for five years.
• Banking union: proceed carefully.
Actual individual consumption per capita in Euro, 2002=100. Source: Eurostat.
Conclusions

1. No magic bullet.
2. Don’t promise that northern friends will pay forever or that the ECB will solve it all.
3. Living beyond means must come to an end. Painful, but unavoidable.

Clean up, and be prepared. Then, the future will be bright in Europe once again.

Thanks