
Preface

The problems inherent in the partial union of the euro area were foreseen by many experts over many years. But when its sovereign debt and financial crisis engulfed the region in 2010, the policy response was often chaotic, short-sighted, and hampered by political and ideological constraints. For now, the euro area has stabilized, and it may be setting out on a new path, thankfully. But as is made clear by this unusual and perceptive book by Simeon Djankov, an insider in the decision-making process, the costs of the crisis were higher than needed, and the euro area is far from out of danger. *Inside the Euro Crisis: An Eyewitness Account* offers some important suggestions for repairing the damage and minimizing the chances of crisis in the future. More than that, it tells a dramatic story of one individual economist's experience as part of the high-level decision-making process as the crisis unfolded.

Djankov, formerly a widely cited and senior economist at the World Bank, became finance minister and deputy prime minister of Bulgaria in July 2009, without previously knowing any politicians in his native country. Indeed, as he notes wryly, his only connection with the political world was through an ancestor who served as a legislator at the end of the 19th century. While at the World Bank, Djankov had spent no time dealing with the problems of the European Union as it made its historic transition toward a single currency in the previous dozen years. Yet, suddenly he was thrust into managing not only a financial crisis in Bulgaria but also an existential crisis for Europe itself, as he participated in dozens of monthly meetings and emergency communications of Ecofin, the powerful gathering of EU finance ministers.

As Djankov notes, the crisis revived old questions about the advisability of the unified currency zone—questions that had been raised in Europe a decade earlier. “Whether our countries were in the eurozone or not, all of us in Ecofin

were forced to confront issues of how to save the eurozone, establish greater powers for the European Central Bank (ECB) to prevent bank runs, undertake structural reforms, and create a European fiscal union,” he writes. Djankov also discusses his painful experience to try to reform some ailing sectors of the Bulgarian economy during this tumultuous period, notably his ultimately successful experience with pension reform in 2010–11.

Djankov takes the reader inside the process to describe what ideas were considered and how they got rejected or implemented as he and other economic officials struggled to deal with problems spreading through Greece, Ireland, Portugal, Spain, and Cyprus, and as unemployment soared throughout the region. He discusses how progress was made in some areas—for example, in steps toward establishing a banking union and making constitutional amendments in several eurozone countries to institute budget rules. In other areas—for example, the establishment of a fiscal union—little was achieved. The process by which these successes and failures came about has not been the subject of previous writings, as few scholars could lift the veil on Ecofin decision making and the strong personalities of those involved, and fewer EU insiders could write with such insight and analytical clarity.

The main contribution of this book thus lies in documenting what went on behind the European Union’s closed doors, before investors and the public learned of the politically made decisions. It complements an already voluminous journalistic and academic literature on whether these decisions were the right ones and how they affected the resolution of the euro area crisis. One thing the author makes very clear: European economic decision making was too slow and inhibited by poor understanding of what was going on in the markets and throughout the region. Creating a more resilient euro area requires not only reining in fiscal imbalances in some euro area countries, Djankov argues, but also a different structure of the European institutions themselves.

We at the Peterson Institute are proud to have made important ongoing contributions to the policy debate on how to resolve the euro area debt crisis. In June 2009, Nicolas Véron and I published “A Solution for Europe’s Banking Problem,” a Policy Brief that set out a vision for unified bank supervision and regulation in Europe, one now coming to fruition in the asset quality review and the Single Supervisory Mechanism. From 2010 through early 2014, PIIE published two dozen Policy Briefs and Working Papers on the crisis as well as a conference volume on policy options in March 2012 (*Resolving the European Debt Crisis*, Special Report 21, ed. William R. Cline and Guntram Wolff). The Institute has been the leading US forum for serious discussion of euro issues. We hosted speeches and discussions on the issues by euro area finance ministers, central bank governors and board members, EU commissioners, two ECB presidents, and three heads of state. Several senior members of the Institute staff—notably Anders Åslund, C. Fred Bergsten, William Cline, Jacob Kirkegaard, Ángel Ubide, and Nicolas Véron—have provided widely followed commentary on the crisis as it has evolved. In tandem with this book, PIIE is

publishing *Managing the Euro Area Debt Crisis*, a rigorously analytical account of the crisis and its decision making by William R. Cline, our long-standing expert on sovereign debt and financial crises over many years and regions.

The Peterson Institute for International Economics is a private, nonprofit institution for rigorous, intellectually open, and honest study and discussion of international economic policy. Its purpose is to identify and analyze important issues to making globalization beneficial and sustainable for the people of the United States and the world and then to develop and communicate practical new approaches for dealing with them. The Institute is completely nonpartisan.

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The President makes the final decision to publish any individual Institute study, following independent internal and external review of the work.

The Institute hopes that its research and other activities will contribute to building a stronger foundation for international economic policy around the world. We invite readers of these publications to let us know how they think we can best accomplish this objective.

ADAM S. POSEN
President
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