Four things about the euro you shouldn't believe

Allianz chief economist Dr. Michael Heise picks apart common myths about the euro debt crisis repeated from talk show to talk show.

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The events in Cyprus have once again highlighted the complexity of the sovereign debt and banking crisis. The Cypriot public, along with the populations of other countries such as Greece, have been quick to point the finger at the EU and the Federal Republic of Germany. Not only that, but in media debate in Germany and elsewhere, there has also been a great deal of incorrect didactic simplification. Facts have often been turned on their heads, and misleading theories repeated from talk show to talk show on continuous play, suppressing informed discussion. Here are a few examples of these distorted "compelling arguments":

It seems to have become generally accepted, even by some right-wing politicians, that the EU rescue packages have been put together not to protect ordinary people, but merely to protect banks and financial sharks. Is that right? No, of course it isn't! Provided the rescue package funds are used to stabilize banks, they are in the fundamental interest of ordinary citizens, and this is the reason they are made available. The huge outcry by the Cypriot public underlines only too clearly how bank failures affect everyone. Using EU funds, in a limited way and subject to stringent conditions, in order to stabilize banks is therefore sensible. The question of who is actually to blame for the problems quite rightly inflames tempers, but in the middle of a crisis of confidence, dwelling on that does not resolve the problem. What can happen if there is a categorical refusal to rescue banks is demonstrated by the failure of investment bank Lehman Brothers, which triggered the sharpest global recession since the 1930s, causing millions to lose their jobs and slashing both income and assets. The European rescue packages have prevented a second Lehman scenario, and thus also protected the general public. In addition, using rescue packages to save countries from bankruptcy protects not only financial institutions, but also the assets of small savers. Private savers in the euro area probably hold around 800 billion euros in government bonds, and larger amounts in the form of investment funds, pensions and life insurance, so small savers have a lot at stake.

Just as in some of the crisis-hit countries there is a tendency to blame the German government for the problems, claims are regularly made in Germany's own talk show debates that working people here are paying the price for southern Europe's debt excesses. No mention is made during these debates, however, of the fact that so far there have been no actual transfers of taxpayers' money between the euro countries, merely an assumption of liability risk. Even when Greece's debt was restructured, the public sector – i.e. the taxpayer – did not go short. And that's as it should be. Labor market figures also prove that working people in Germany have not lost out. The number of people in gainful employment in Germany is currently 1.3 million higher than it was at the end of 2009, when the debt crisis began. Or do German workers have to pay more on their earnings than they did before? No. Another misconception. The message that they will "pay the price" can thus only be referring to the future. Given the indisputable advances in economic adjustment already made in the southern European countries, however, this is little more than an empty prophesy of doom.

Yet to support this argument, in almost every open discussion there is someone who bluntly claims that the debts of the problem countries will have to be written off at some point anyway, so it's better to do it now. Quite frankly, anyone complaining about the burdening of ordinary people should be wary of making such demands. Debt cancellation for larger countries would be an unparalleled destruction of assets and would pull the whole euro zone into a long-lasting recession. The better alternative is to keep the governments saving money and at the same time to demand political and economic reforms that promote growth. But the naysayers simply wave off this suggestion with the assertion that a policy of austerity will inevitably lead into a downwards spiral. Of course simply saving money is not enough, it needs to be accompanied by structural reforms. Many countries have shown in the past that this leads to success, and many European countries are following exactly this recipe at present. This has enabled them to increase their exports and substantially decrease their foreign trade deficits, to improve their competitiveness, and to significantly reduce their fiscal deficits despite recessionary developments. In doing this they have laid the foundations for sustainable growth, which will resume at the latest next year, if not this.

Sometimes, the critics resort to drastic descriptions to underline the hopelessness of the situation. They describe the euro as a train with several carriages. If one of the carriages is traveling faster than one of the others, they say, then the whole thing comes apart because there are no flexible buffers (aka exchange rates). This argument may sound convincing, but it is wrong. Highly diverse economic areas are indeed able to function with a single currency – just look at the United States. What is needed is appropriate political reaction, wage flexibility, mobility of workers and capital, and a good regional economic policy.

Care is needed, therefore, when considering oversimplified "truths". There are enough other problems requiring discussion, for example: What reforms create growth, how strongly should saving be pushed, how can the architecture of the eurozone be improved, and how can free-loader behavior be avoided in the future? Unfortunately such questions are addressed far too rarely in our talk shows.