

# CRISIS CYCLES

## Challenges, Evolution, and Future of the Euro

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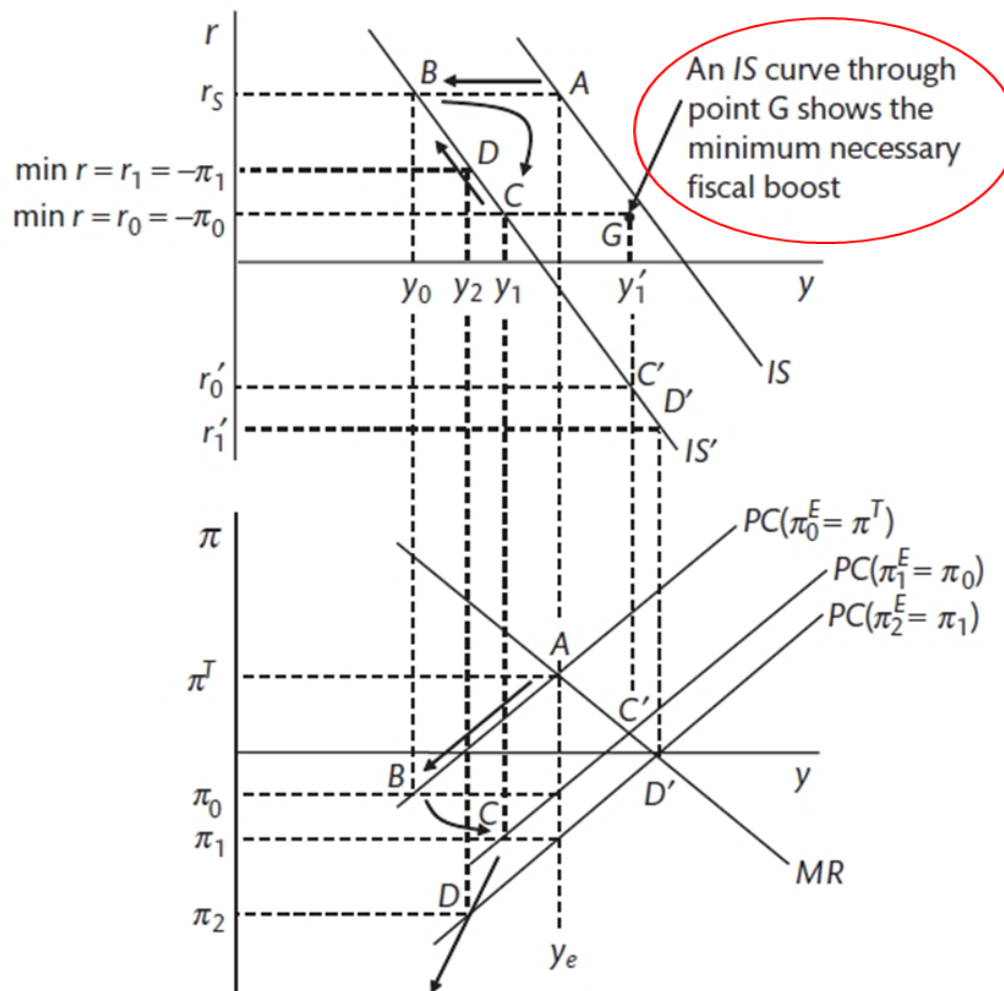
## **“It would be lovely to have a few quiet years to sort things out”**

- ◆ **The authors:** A dream team of top economists with hands-on experience, with “different perspectives and experiences”.
- ◆ **Why another book on the Euro?** (1) better written and organised than others, (2) a contribution to institutional reforms, (3) a long-term approach, (4) it looks at the interactions between fiscal, monetary, and financial stability policies, (5) focuses on the incentive structure.
- ◆ **The main point:** “No clean up between crises”. “Almost nothing to unburden the ECB”. Time to sort things out?
- ◆ **Some problematic issues:** (1) **ELB:** Separation between monetary and fiscal? **ELB not EZ crises;** (2) **Doom-loop:** The problem is the **transition, not the principle;** (3) **Sovereign Defaults:** We got one, although it was **not orderly.**

## Putting the cart before the horse (integration)?

- ◆ **Ongoing crisis-mode:** Overburdening the EBC? The only game in town? Yes. Should the ECB not have done it? Counterfactual? A monetary union without a political union is not a stable construction. Integration: “New initiatives fell short”, without a clear roadmap.
- ◆ **Inward-looking:** The EU/Eurozone has always been inward-looking, focusing on its internal problems, without realising what was happening around the world. Too fragmented, too slow to act.
- ◆ **Another existential crisis:** Russia, Trump, and the new Global South are challenging the existing status quo. Is the EU/Eurozone well-equipped to face global economic and geopolitical challenges? No.
- ◆ **Democracy & cacophony:** No politician told Europeans that the logical consequence of monetary union would have been political union down the road. ... but now Putin, Trump, and others do, but Europeans are not listening.

## When in a foxhole (deflation trap), you need fiscal!

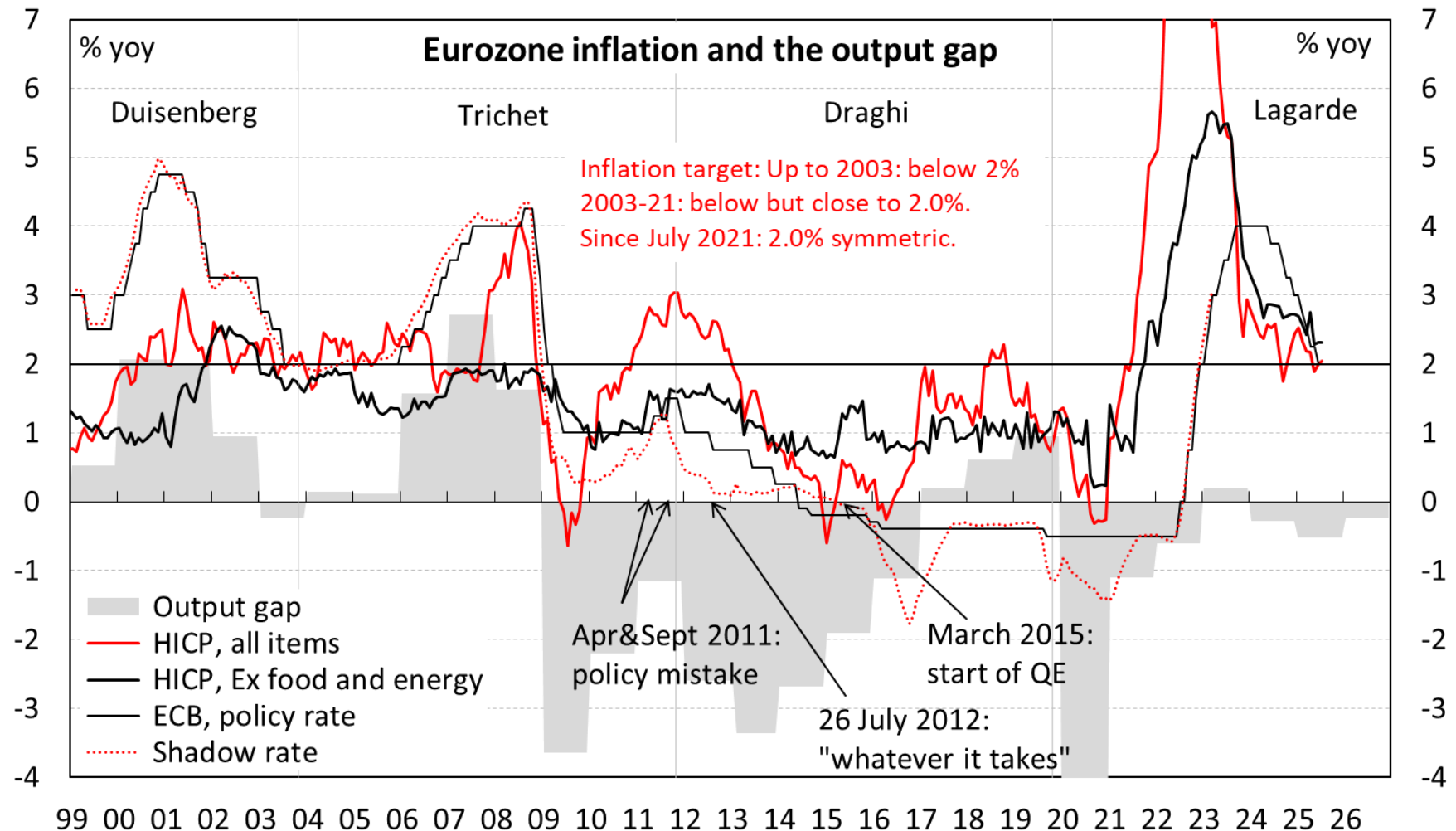


**Deflation trap**

Read: monetary said to fiscal .... Read: inflation ... and output

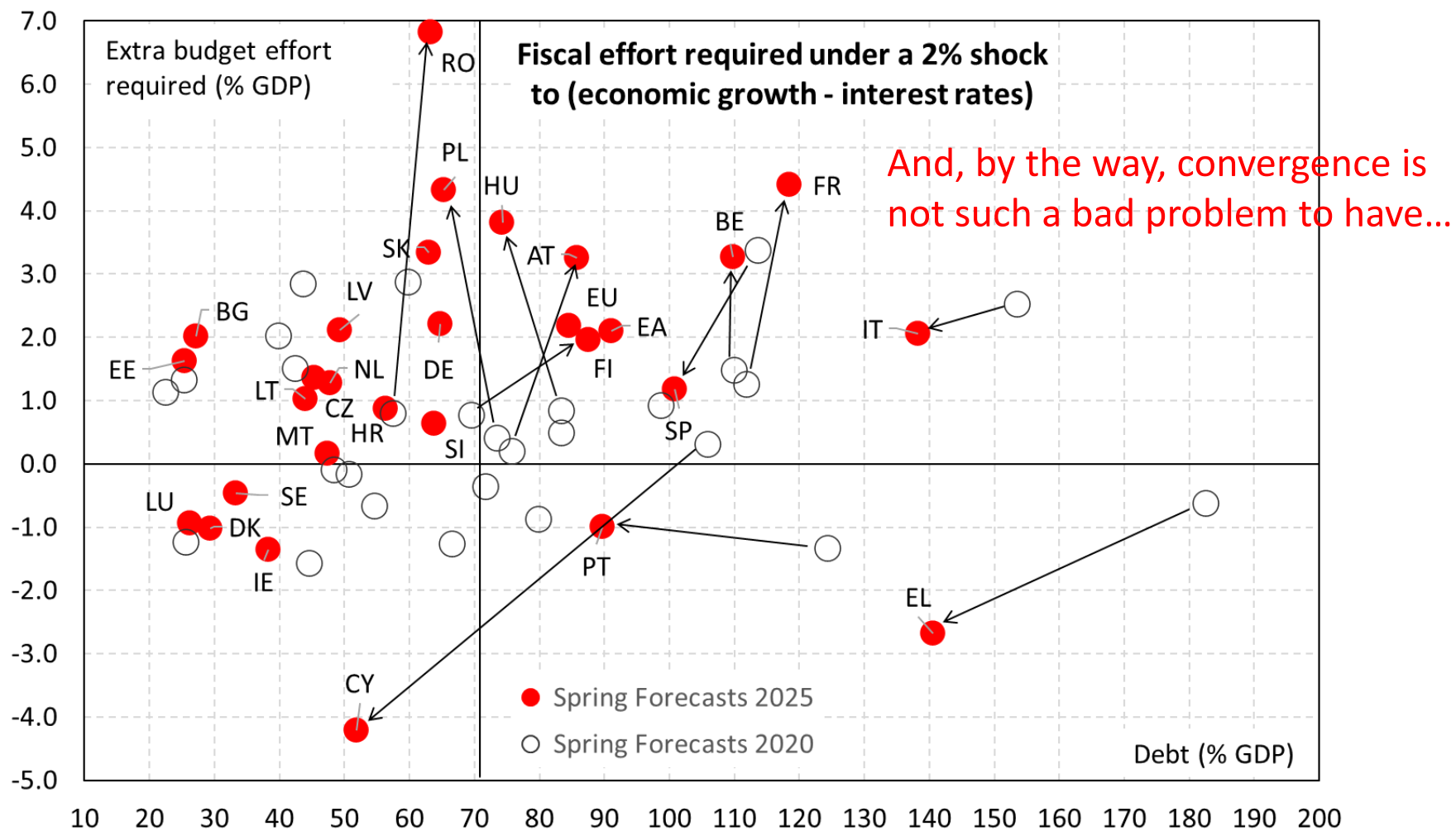
CRISIS CYCLE. Challenges, Evolution, and Future of the Euro

**Hey baby, we shrunk the kid! And we forgot to bring it back**



Source: LSEG (Datastream), Eurostat, ECB, European Commission, LC-MA calculations.

## Fiscal problems are even bigger than in the past. However, ...



Source: LSEG (Datastream), European Commission data and projections, LC-MA

## Are we fighting yesterday's battle?

- ◆ **What is the most pressing issue today?** Not fixing the fault lines, which indeed exist. Instead, moving quickly towards integration: Draghi's agenda (including the savings and investments union), a defence and security union, and institutional reforms.
- ◆ **Governance:** Giving up sovereignty on essential matters (defence and security), while leaving to the national government non-essential items (CAP, Structural and cohesion policies). Good institutions & Qualified majority voting. But fixing things at the margin will do it?
- ◆ **Beyond the point of irrelevance?** Europe cannot afford to wait to address its issues while the rest of the world moves forward.
- ◆ **Risks:** European “dis-union and fragmentation” lead to a shift to illiberal regimes, as “democracy is not able to deliver”.
- ◆ **Book:** While interesting, is it already somewhat obsolete?