

The Trilemma and the Eurozone: A Pre-announced Tragedy of the Hellenic Debt Crisis

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Abstract

The historically confirmed monetary policy trilemma (fixed exchange rate regime, free capital flows and monetary autonomy) may explain the economic framework within which the Hellenic authorities navigated to the Eurozone, given the obvious political reasons. However, EMU has not ever been an optimum currency area, the gap of which did not cover by fiscal federalism, in order that it could promote complementarities instead of antagonism. In this context, the Hellenic twin deficits, implied by the structural unsolved problem –deficit production of capital goods–, have been accumulated. This was allowed, politically, by the stark insufficiency of policy makers, not only domestic but also in European level, as well as, economically, by the asymmetric shocks in the first half of the previous decade, which have been intensified with the global economic crisis, in the second one. The analysis presented in this paper, suggests without doubt, that the Hellenic debt crisis, started in the third quarter of 2009, it could be theoretically and empirically forecasted and blocked.

Keywords: Monetary Policy Trilemma, EMU, Asymmetric Shocks, Institutional Economics, Global Economic Crisis, Hellenic (Greek) Debt Crisis.

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