Following the most acute phase of the Greek economic and financial crisis and the third bailout of the country in the summer of 2015, the debate about the possibility and opportunity for the southern European countries to leave the euro area, so getting rid of its institutional constraints and regaining monetary sovereignty, has partly faded away. The reasons underlying this debate, however, are still there. Greece is not yet out of the crisis, southern European countries are still financially vulnerable, and the debate might be revamped should Brexit—with all due distinctions—eventually come at little or no economic cost for Britain.

The EMU’s flawed architecture

One of the main arguments against the Economic and Monetary Union (EMU) is rooted in Robert Mundell’s theory of the optimum currency area. This theory is skeptical about the sustainability of a common currency covering structurally different economies without viable adjustment mechanisms to tackle asymmetric shocks, like the possibility of substantial budget transfers or large mobility of labour between different parts of the currency area. These adjustment mechanisms are precisely what the Eurozone lacks (unlike, for instance, the United States). Given the risible size of the EU budget (about 1% of the GDP of the Member States), the constraints of the Stability and Growth Pact (SGP) on national fiscal policies, and the structural and cultural barriers to the mobility of workers across countries, the only possibility open to euro governments to tackle asymmetric shocks and save the competitiveness of their economies is the internal devaluation of labour and welfare standards.

> *The alternative option—remaining in the Eurozone and adopting economic and social reforms severe enough to improve national competitiveness—would imply a more or less devastating internal devaluation of wages and prices.*

A stream of influential scholars—such as Fritz Scharpf and Wolfgang Streeck, among others—have stressed how these asymmetries and unbalances were built in the institutional

architecture of the EMU from the start. Although the effects of these asymmetries were only partly apparent during the euro's first few years, the events following the 2008 economic and sovereign debt crisis have shown how serious this argument was and still is. Streeck's analysis has recently gone even further, underlying the (insuperable?) strain between the EMU's institutional fabric and democracy. Some observers seem even ready to bet that the entire edifice will collapse soon, especially should a new economic crisis arrive.

In this perspective, it is at times suggested that the preferable option for the weakest economies of the Eurozone periphery (namely the southern European countries) would be to leave the single currency. The alternative option—remaining in the Eurozone and adopting economic and social reforms severe enough to improve national competitiveness—would imply a more or less devastating internal devaluation of wages and prices, along the path followed by Greece and other countries under assistance by the Troika. This process would be the more traumatic the less it is associated with some form of symmetric adjustment by Germany and other strong economies to expand their domestic demand and increase unit labour costs. It has been estimated, for instance, that for a country like Italy nominal wages should be devaluated by more than 20% in the whole economy, and more than 30% in manufacturing, to regain competitiveness vis-à-vis Germany. These would be dramatic decreases in a context of no inflation.

Could Italy leave the euro?

While abandoning the euro unilaterally would probably imply no less strain than internal devaluation, the story, the anti-euro argument goes, would be different should the withdrawal occur in a negoatiated way between the leaving country, the remaining members and EU authorities. After all this was exactly the last-minute offer by Wolfang Schäuble, the German Minister of Finance, to Greece in alternative to the third bailout of the country: a temporary, agreed-upon and "assisted" exit from the EMU, to allow for a readjustment of the exchange rate and a recovery of national competitiveness.

The competitive threat of an economy as large as Italy left free to leave the euro in an assisted way, and to devaluate its currency, would be incomparably bigger for partner countries than that of a small economy like

Greece, with its limited export.

Would the path of a negotiated and assisted exit from the EMU be a viable and desirable option not only for Greece but also for a larger southern European country like Italy? Desirability aside, it is first of all the viability of this option to be highly questionable. To begin with, in the summer of 2015 this solution was rejected not only by the Greek government, but also by the other relevant partners, including the German Chancellor Angela Merkel.

More important, however, is the fact that the competitive threat of an economy as large as Italy left free to leave the euro in an assisted way, and to devaluate its currency, would be incomparably bigger for partner countries than that of a small economy like Greece, with its limited export. It is hardly credible that the industry of Germany and other exporting countries of the Eurozone would not strongly oppose such a solution. Even in case of a controlled system of exchange rate fluctuations, like the Exchange Rate Mechanism adopted in 1999 to regulate the relationships between the EU countries belonging to the Eurozone and those without the single currency, the scenario of a negotiated exit would be rather complicated. The limits of the exchange rate fluctuations should be either wide enough to facilitate the recovery of the Italian economy, to the detriment of the remaining Eurozone countries, or narrow enough to protect the exporting industries of the euro countries, but with little or no utility for the Italian economy.

In sum, it is very probable that a country like Italy could leave the EMU only unilaterally, by an autonomous decision of the government, with all the uncertainties and strains linked to this scenario. Moreover, given the current constraints of the Treaties, this could only occur through a simultaneous exit from the European Union, with the risk of worsening social and political cleavages within the country, starting with the one between northern and southern regions. The experience of Brexit, with its difficult implementation, could be instructive in this sense.

Thinking outside the box

More generally, the question is whether for the southern European countries the option to remain in the euro could only come in two variants: either with a fierce, Greek-style internal devaluation, which is neither desirable for the interested countries nor easily viable; or with some sort of muddling through, waiting for some favourable, miraculous event that would

help overcoming difficulties. The latter, "fence-sitting" variant assumes that these countries can have only a passive role in the definition, interpretation and implementation of European rules and policies—just as rule- and policy-takers, without any capacity of influencing their design and implementation.

The possibility that these countries—especially those with the largest economies, most suffering under the narrow constraints of the SGP and austerity policies—might act to change these policies, to promote a different interpretation and implementation of the rules, or even to modify the rules themselves, is altogether excluded from this view. Such negative expectations, however, seem disproved, at least partly, by some developments in 2015 and 2016, such as the (admittedly shy) so-called Juncker investment plan, the January 2015 "interpretative" Communication from the Commission in support of a more flexible interpretation/implementation of the SGP rules, and of course the expansionary monetary policy of the European Central Bank.

All this seems to open the way to more growth-friendly policies, which go beyond the obsessive attention to the themes of austerity in helping manage the economic and financial vulnerabilities of southern Europe more dynamically than in the past. This perspective seems to be reinforced also by the June 2015 Five Presidents' Report on Completing Europe's Economic and Monetary Union, which promises a partial re-balancing of the asymmetries built in the institutional architecture of the EMU, reducing the internal devaluation implications prevailing in the original settlement.

It might well be that these developments are nothing more than wishful thinking—or just a way to "buy time", to paraphrase the title of Streeck's recent book. Aiming to change EMU policies, rules and perhaps institutions is certainly a very hard option to pursue. It is, however, probably more desirable and no less viable than pursuing the road of a fierce internal devaluation or taking for granted the EMU's inevitable failure.

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