Associazione Studi e Ricerche
Interdisciplinari sul Lavoro

Working Paper n° 6/2013

"EURO" CRISIS. ORIGINS, STATE AND PERSPECTIVES

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Anno 2013

ISSN 2280 – 6229 -Working Papers - on line

ASTRIL (Associazione Studi e Ricerche Interdisciplinari sul Lavoro)

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esemplare fuori commercio
ai sensi della legge 14 aprile 2004 n.106

Per ciascuna pubblicazione vengono soddisfatti gli obblighi previsti dall'art. l del D.L.L. 31.8.1945, n. 660 e successive modifiche.

REDAZIONE:

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E-mail: astril@uniroma3.it
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“Euro” Crisis. Origins, State and Perspectives

Paolo Piacentini♦

Abstract

During the past year, speculative attacks on titles of Sovereign Debt of weaker member countries, endangering the continuation of the common currency area itself, were eventually contained by statements and actions of the European Central Bank, capable to convince the "market" that "defaults" would not occur at least in a near horizon. However, the institutional and structural flaws of "Eurosystem" are still there, and "Eurocrisis", meant as the crisis of real economies of member countries facing the effect of fiscal adjustments appears to get worse...These notes are meant to recall these original weaknesses and critical developments of the Euro area, in a joint consideration of the financial and real aspects of the crisis deployment.

Key words: Eurozone. Financial Crisis, Eurocrisis

JEL: E02, E61, F62

1. Foreword

These notes on Crisis in Europe, with particular stress on origins and developments of the problems within the “Euro” area, are mainly drawn from informal drafts, circulated in the occasion of seminars held in Japan in Winter-Spring 2012. The background description and the accounting of developments were thus thought for comment from an “outside” audience, not directly involved by the actual deployment of the crisis in their own experience. Because of this origin, some consideration or comment included in the occasion may appear, to the reader from “inside”, as established or repetitive of other and more refined accounts. However, I am glad if the opinions of mine might reach a wider audience, circulating as working paper in this occasion, and contributing to the current debate on the circumstances, and the perspectives, of a crisis in which we are, year after year, and more and more deeply, involved.

Notes and reported references would require to be updated for the macroeconomic, and policy, developments of the later months of 2012 until the beginning of this 2013. However, I believe most of the “Fundamentals” at the background, and cumulative processes, involved within the “Euro” crisis remain fundamentally robust in front of contingent developments. In particular, the “endogeneous” weaknesses, and the “exogeneous” shocks, briefly enumerated in the next section, and the description of the possibly perverse effects of imposing a common currency over a set of heterogeneous countries, as commented in a later paragraph, remain in my opinion still worth being recalled in their general implication. The text will thus follow earlier reflection and drafts, occasionally updating evidences and circumstances. A reference to the more recent developments of the political context will be included in a concluding paragraph.

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2. "Eurocrisis": the Background

I have been occasionally presenting, in these years, un-rigorous accounting and opinion around the theme of the "Euro" crisis. I have always given stress to the weaknesses of the political and institutional setting of the EMU, and to risks implicit, and already detectable in earlier periods, of divergent trends for macroeconomic fundamentals of the member countries, endangering the whole construction and governance of Monetary Union, in particular in a period when the scenery of a "global" finance had entered a phase of acute turbulence. Although not wholly convinced, since the origin, about prospects and benefits deriving from the common currency, I could not have imagined, before , say Summer 2011, the dramatic acceleration of critical events.

The section provides an introductive summary of the fundamental flaws which, in my opinion, were imbedded from the start in the "vision" and "operation rules" of the Euro-system, and which have contributed to the current , dangerous, state of things overall.

I will thus refer to three "endogenous" factors, and to two "exogeneous" forces, which have acted on the crisis, and whose impact was not adequately perceived at the moment of the setting of the fundamental norms of EMU constitution.

Among the endogenous weaknesses of the Euro architecture, I would include:

1) poor performance of the member states' economies vis-à-vis the international standards of growth of output and productivity;

2) poor coordination of policies at the Union's central level of governance, coupled to the often loose attitude of single national governments, in front of evidence of weaknesses in their trade, or the external and internal debt positions, of the public and the private segments of their economy;

3) possibly, the "original sin": that of conceiving an awkward frame of governance and attributions for the policy "mix" , with a single currency managed by a Central Bank, formally conceived as irresponsible for the real macroeconomic performance of the member countries, and wholly dedicated to the "single" mission of maintaining price-stability, coupled to the responsibility for fiscal policies and debt management wholly delegated, instead, to the national governments, whose "virtuous" behavior was to be checked by the key norm on " -3% limit" to current deficits of governments, as set by the Maastricht Treaty.

Exogenous shocks have impacted upon these already fragile foundations, as these came from the side of:

1) The "globalization" of competition, with the rise of emerging countries and their influence on allocation, or dislocation, of real and financial resources, throught the globe;

2) The disrupting impact of an ever augmenting "financialization" of the global economy, with the empowerment given to the "Market" -- as we euphemistically refer, with a single word, to behavior, sentiments and expectations of a financial community --

maneuvering resources, whose size is worth about 5 times the value of World GDP in stock, and 70 times of it in terms of the turnover of annual transactions.

The extent of the market turbulence and the role of “innovative finance” (subprime mortgage backed securities, CDSs, etc.), which were original triggers for the crisis of 2007-8, and of which the current “Euro” crisis was possibly one consequential development, could have not been even imagined by the founding fathers of the “Maastricht” constitution, who took almost for granted a “tranquil” world in which a “nominal” stability, meant essentially as an inflation free environment, would have been a sufficient setting for the steady and convergent growth of the member economies.

Things have developed differently, and now the price for myopic or overoptimistic visions and expectations are being mainly borne by the “commoners”, outside of a financial elite, making their living out of the employment and income opportunities as actually offered by the real economy.

3. How Bad Is “Eurocrisis” ?

The Debt/GDP ratio of the United States of America had surpassed the 100% mark already by 2011, when the Federal budget run a deficit worth about 7% of GDP; in Japan, the same ratio was over 200%. At mid-2012, the debt ratio for the whole of the “Euro-area” was estimated at around 85%, with peaks for Greece (at about 175% of GDP even after recent “haircut”) and Italy (120%). If “sound” fiscal rules were to be imposed in order to bring down debt into a “safe” standard (conventionally posited at around 60% of the GDP), structural adjustments of public accounts should result in the USA or Japan even more painful than in most European countries. But why, then, “Speculation” has targeted since 2010-2011 essentially instruments of debt denominated in Euro? Why even non- speculative traders (e.g. managers of pension or insurance funds dedicated to the safe “keep” of conferred savings) were sometimes so eager to get rid of euro-denominated bonds, mainly out from public debentures of weaker member countries, but also from issues by greater banks and institutions of the area, with the only exception given to the purchases of German “Bunds”, perceived as the only safe harbor in the continental storm?

All this started, as we know, from Greece, and the uncovering of malpractices, if not fraud, in the reporting of public accounts and debt management by the Greek government. Greece actually counted for about 4% of total stock of Euro-denominated public debt. However this was sufficient to trigger a contagion process, with successive involvement of other peripheral countries of the Euro-area: Portugal and Ireland at first. But it was only with the large scale attack on Italian (and Spanish) debentures, after Summer 2011, that the “Euro” crisis entered a potentially catastrophic path. Italy, actually, was the originator of about one fourth of the total amount of titles of a Public Debt denominated in Euro circulating on the market.

Already the prospect of a Greek default had caused enough panic in the financial community, with large falls in the stock values of banks believed to be most involved. The holding of public debt by banks was a common practice, also given their general acceptance as a collateral for liquidity swaps at ECB, or for the trading on interbank markets. Italian and Spanish banks traditionally held large stocks of their own national debt mainly for this purpose. Still before any eventuality of default, the fall in the market values of these holdings has thus meant cuts for the active items of banks, in a moment in which they had already problems in meeting capital reserve requirements[1]. The uncontrolled practice, for "downgradings" by the rating agencies of public debt of a country, to be generally followed by parallel downgrades of the domestic banks involved, heated up market perception upon risks, immediately increasing the difficulties for the availabilities and costs of liquidity provision.

Also beyond the national banking systems of the countries under attack, the increasing interconnectedness of the banking network spread risks and fears over the continental scale. The worsening of the situation could be followed , day after day, through the evidence of the dramatic increases of the s.c. "spread", i.e. the differential of the interest rates on bonds of other Euro-area countries, with respect to those payable on German "Bund". E.g., the ten-year term debentures of Italy, whose spread was only slightly above 100 points at the beginning of 2011, reached a maximum of 575 points on 11/9/2011.[2] Subsequent events have lowered this spread. However, the increasing fears upon sustainability of Italian debt had at time repercussions also upon France's financial markets, since French banks held 106 billion Euro worth of Italian debentures, and some 300 billion worth of other credit towards Italian private counterparts. Eventually this brought to the downgrading of France's debentures from the "AAA" standard[3].

It can be understood, by now, that a systemic, endogenous mechanisms of perverse contagion was put in motion; the flight of foreign investors from bonds of targeted countries being transmitted, through the portfolios of greater banks, to further and further positions, and with the rise in interest rate differentials increasing the difficulties for the "roll-over" of the debt of countries entering the "black list". Greece, Portugal, Ireland…. and then Italy, Spain. It was even feared that France (and Belgium) might become targets at some point. But then, what would have been left, out of an "Euro-area" , which might be perceived as "safe" by the international speculation ? Germany, with a contour of neighboring small countries (Netherlands, Austria, ..) which constituted a "Deutchmark"-centered area of fixed exchanges, already in the 1980's ?

It is clear at this point that the "Euro", how long might it be kept alive as a medium of exchange and currency unit, had "*de facto*" ceased to perform as a wholly "common" currency of an integrated super-national area. Interest rates payable on ten-years debentures ranged in mid-2012 from 1.8% of Germany to almost 17% of Portugal (not to speak of Greece…): this should be understood that the breakdown of the functions of an effective Monetary Union had , in some way, already occurred. Should not a common currency command near-equal interest rates throughout the area of its circulation ? The differential, for the rate of interest, to be kept within the range of 2% with respect to the average of the three most "virtuous" countries in the group, was not one of the original key conditions set in Maastricht for joining EMU?

The apparent impotence of the "Eurosystem" vis-à-vis these trends upon a financial market, over-frightened by expectations of defaults (or partial defaults, as in the case of "trimming" of nominal values of bonds held by banks in the Greek case) requires a careful reconsideration of the original founding rules governing European Union and its Central Bank. Article 103 of the Treaty on the Functioning of the European Union[4] states that : "*Community shall not be liable for or assume the commitments of central government, regional, local or other public authorities,…., of any Member State*". This norm, commonly known as the "Non-bail-out clause", prevents ECB from direct subscription or any other intervention, in the event that issues (or roll-overs) of debentures of any member state fail to find sufficient demand from the market counterpart, on the "primary" market at issues. As known, ECB massively intervened, in particular after the onset of the Italian debt crisis, on the "secondary" market, in order to check uncontrolled rise of interest rate spreads. For Greece, Ireland and Portugal, facing virtually no counterpart for their debt roll-over since "de-facto" ousted from the international liquidity market, the duty of keeping them out of outright default was taken up by "ad-hoc" instruments of the Community, the s.c. "European Financial Stabilization Facility" (EFSF) in first instance, supplemented by conditional loans from the IMF. The original funding for EFSF, at Euro 440 billion, was just sufficient for keeping afloat the above mentioned countries. There was therefore no capability for intervening on the markets in the event of a full escalation of a debt roll-over crisis of greater countries. [5]

Germany in diverse occasions, spoke out its unwillingness to raise the funding capacity of EFSF, or the endowment of ESM (European Stability Mechanism) due to substitute it in its functions from the end of 2012. [6] Suggestion at forms of "financial engineering" allowing some "leverage" upon original endowment (e.g. EFSF guaranteeing up to 30% of the values of new bonds issued by the countries or banks) were advanced, but decisions ,and hard money, were mostly to come.

If Treasuries suffer, what about banks? Liquidity crisis, caused by the increased unwillingness from the demand-side of the market to keep risky positions, was already striking hard on them. European banks collected in 2011 some 413 billion $ from the issue of bonds, against repayments for maturity worth 654 billion: a net deficit of 240 ! The other sources of liquidity are customers' deposits, which appear stagnant if not yet on decrease, and some form of "last resort" supply from the ECB. Also upon this point, the incompleteness of the [7] constitutive rules for ECB plays a crucial role: ECB is <u>not expected</u> to act normally as a lender of last resort. [8] This helped in raising the perception of risk to the potential lender, in a moment in which European Banks, in order to comply with the safety standards were asked to raise additional capital for their "Core-tier" requirements for an amount estimated exceeding 100 billion Euro by the end of 2012! [9] Treasuries were prevented from further bank rescues by their budget constraints, and banks without public support might have run short of liquidity…; this tie-up of a perverse interdependence between public and private debt represented, and still represents in my opinion, the most dangerous factor of potential triggering for a global, systemic, crisis striking the whole Continent. Would, at that point of the story, the countries outside the EMU area be spared ? The linkages between financial institutions in the USA and in Europe were already sufficient for the propagation onto an overall crisis of an original shock, i.e. the collapse of the U.S. subprime mortgage securities market, for which the values of the insolvencies involved were much lower than those which would result from the case of the worst scenario occurring, i.e. the event of a "default" of an European State. Not being a specialist in financial market forecast, I will stop here for the description of the dangerous path on which the "Euro" and the entire institutional framework of European Union have moved in the year just past. Rather, I will proceed further with considerations for the "real-side" impact of the evolutions of "Euro-crisis".

Let us then consider Greece, which is surely the "extreme" case for the worst, fighting with nightmare conditions, and haunting the imagination of the Portuguese, the Irish, the Italian, the Spaniard, as a possible scenario of an awful future also affecting them. The data and evidences for a perverse interaction between successive rounds of budget cuts and deeper plunge into recession are, in fact, terrible: GDP at market prices, according to the most recent OECD survey, has fallen by -13% over the years 2009-2011, and by -6% further in 2012, with recession continuing in the current year. Unemployment rate has increased from 9% in 2009 to 23,6% at the end of 2012. Notwithstanding "brutal" measures of fiscal adjustment, e.g. cuts up to 20% of nominal salaries of public sector employees, the Debt/GDP ratio could not but increase, in front of a recession of this entity: it was at 129 % in 2009, it climbed at 176 % by end of 2012, notwithstanding successive operations of "haircuts" and "buy-backs" reducing the value of Greek debentures for the private and institutional investors.

The case of Greece is indeed extreme, starting from its origination in the fraudolent reporting of the fiscal budgets. But where the monitoring experts of Eurostat in Luxembourg were, when the Centre-Right government of Mr. Karamanlis had continued for a decade to draft fake budget statements ? And after the change of government, the adjustment (i.e. a cut of deficit) , as promised by the new Prime Minister in May 2010 worth 11 points of the GDP, was deemed as really sustainable ? In front of this schedule the Finance Ministers Council of the EU (ECOFIN) promised assistance to Greece worth about 110 billion; of which, only 30 billion were immediately paid-in by the partner countries, with a reluctant Germany delaying effective cash disbursement for the further instalments in several occasions. In the meanwhile, the macroeconomic and social conditions of the country got worse and worse. After the so-called "Greek Haircut" [17] [10], banks holding Greek public debt were entitled to preserve only about 35% of their nominal values at maturity, against a countervailing issue of new bonds at lower interest rate "guaranteed" by EU funding. This outcome, which has correctly been called a "Almost Default", finished with inflating further the nervousness of the financial brokers, frightened from the prospect that the same might happen later, and for more consistent stocks of other sovereign debt. The conditions and rates required from the market for the roll-over of the Italian bonds in fact considerably worsened after this episode. It was also decreed that the "half-default" was not after all "full" default and thus the holders of "Credit Default Swaps" should not receive compensation. But what if they did? The counterpart in the emission of "CDS" eventually payable were mainly specialized financial funds operating mostly on the other side of the Atlantic: the crisis of the small Greece would have been exported to big America!

Greek crisis is an extreme, but perhaps also exemplar, case, which fully evidences the perverse linkages among mismanagement at the national level, the lack of sufficient capability in the monitoring and the ruling at the EU level, the imposition of "shock therapies" for adjustment , which eventually do not appear as credible to the financial market, and result disastrous for the real economy. Last but not least, the insufficient, and not timely enough, funding for emergency money, mainly because of a German "constipation" when it is about to pay out hard cash, has contributed to the impression of indecision or ineffectiveness of EU-level policy decision

On December 5, 2011, the Italian Government led by prof. Monti, which had taken over the internationally discredited rule of Mr. Berlusconi, announced a "Save Italy" budget adjustment program, worth 30 billion Euro of deficit reduction through a mix of tax rises (in the greater part) and expenditure cuts. The target was that of reaching a balanced budget already by 2013. The change in government was strongly supported by the EU leadership, and in particular from the German-French "diarchy" ("Merkozy") at the time effectively ruling the EU. Italy would have shown eventually enough determination for supporting its solvability and for contributing to the survival of the whole "euro" business… But Italy, perhaps , was at that time at the starting point of a perverse cycle of deflationary adjustment, as Greece stood at the beginning of 2010. "*Fare la fine dei greci",* ("ending up like the Greek") is the current nightmare of Italians…..

Italy certainly has resources, and productive potential, far stronger than Greece. But this might be a problem rather than an "atout". "Too Big to Fail" or "Too Big to Save" ? Italian crisis could still be the trigger of a final phase of dissolution of the "Euro-area" as this actually stands, and striking from the financial side of a sovereign crisis, and the real side of a final, social, unsustainability of the fiscal adjustments.

Beyond the peculiarities of the national conditions, in my opinion, a fundamental flaw still prevails: this is represented by the apparent unaweress , by the politicians following the prescriptions of orthodox finance, of the unavoidable consequences of obsessive policy, targeting only at the Public Debt, in terms of its recessionary impact. The linkages between the Public and the Private debts, entailing risks of systemic contagion of episodes of illiquidity, or worse, insolvency, might eventually erode any benefit upon the accounting books which might have been brought through the restrictive policies. In the meanwhile, the austerity measures will have performed all their "Keynesian" transmission effects, in terms of contraction of aggregate demand , subsequent fall of incomes and employment, and so forth.

In effect, the "Euro-crisis" appears, then and still, bad enough.

4. The Original Sin: the Euro-Area Was not Eventually an Optimal Currency Area?

Some may read the actual deployment of the events as an ex-post vindication of earlier warnings against the premature launch of an European monetary union, as these were expressed by influential economists, mainly from the US "mainstream" tradition, and often belonging to an older generation still aware of the circumstances and developments of the great depression of the 1930's. Was the "Euro" a mistaken project, since its foundation ? We recall at this point the terms of an economic debate, lively in the 1980's, precisely when EU leadership was entering discussion about whether and how to proceed toward Monetary Union. The fact that the skeptics were mostly US economists encouraged unscientific counter argumentations by the Euro supporters, who even alluded at hidden interests of American circles in raising doubt upon the sustainability of an European currency extending its coverage, upon an area potentially wider economically, than the US. Might Euro become concurrent to an established "Dollar Rule" over a future horizon ?

After two decades or so, the arguments according to which the group of countries entering Monetary Union did not have, from the beginning, the requisites for constituting of an Optimal Currency area, appear still as well founded.

A monetary union would not be an "OCA" [11] and , therefore, fail to bring beneficial effects for the stability and growth prospect of the involved area, when the participant members are characterized by high heterogeneity in their economic structure and potential. In these conditions, should a negative "idiosyncratic" shock hit a member country, the traditional adjustment paths allowed by exchange rate flexibility will be precluded. To regain competitiveness after the shock, the country inside the MU should then engage itself into a "competitive disinflation" effort, i.e., trying to keep price (and wage) increases below that of partner countries for quite a long period. But this would impact upon domestic demand and thus on growth rates, and the adjustment, whenever possible, would have eventually implied higher costs in loss of output potential and rise of unemployment, with respect to a situation in which a domestic currency and rooms for a monetary policy had been maintained.

For the group of countries which eventually joined Euro, two other conditions for a successful operation of an "OCA" were also seen as deficient: that is, the existence of "Federal" institutions endowed with consistent budget resources, capable of acting with a stabilizing role in front of cyclical events, and a high mobility of factors within the area of the Union itself, in particular the mobility of labor over a continental market, through which regional unbalances in growth and employment absorption potentials might be partially corrected.

The political leadership in the EU in that period ignored these arguments, sanctioning with the Maastricht Treaty (February 1992) definitive rules and timings for the implementation of EMU at the start of the new millennium. What was the rationale for this determination, even in front of influential argumentations against ? I think , essentially, that there was a shared conviction that the establishment of a monetary union would have acted, by itself, as a force for advancing convergence among participating countries, and for proceeding into further steps towards the integration of fiscal, institutional and political spheres over the continental area. The absence of exchange rate risks should favor trade and cross-investment; the common rate of a reference interest would have been lower, than those internally ruling before, for most countries in the Union; the enhanced competition over an enlarged "single-market" would have contributed to price transparency and lower inflation; Trade Unions, sometimes with traditions of militancy and excessive pressure for wage claims, would become more "moderate" in front of the awareness of the risks of a competitive displacement in the event of cost increases going out of line with the average standards prevailing elsewhere in the Union.

Disinflation, wage moderation, low interest rates: these conditions appeared in fact to have been realized in the years immediately following the entry into Euro. No one could forecast, at that moment, what a sort of macroeconomic and financial environment the world was going to face only few years later….

However, even before the devastating impact of the financial crisis, evidences on the "malfunctioning" of macroeconomic governance, and on processes of " real divergence" amongst the member countries, in front of an apparent "nominal" convergence, should have been detected by the careful observer. The mechanisms eventually leading to divergence rather than convergence were in fact embedded inside the fundamentals of the constitution of the monetary union itself. In fact:

a) With a single "reference rate" of monetary interest as set by the common Central Bank, countries with a higher inflation would have enjoyed from a lower real interest rate (and v.v. for a country with low inflation because of a stagnating economy). This would become potentially inductive of further divergence, between the nominal and the real indicators of economic performance;

b) In the second place, the perception of having put aside the balance of payment constraint, as this was binding in the pre-Euro era, might give an excess of confidence to countries actually holding "unbalanced" positions in their current accounts and growing records of external indebtedness.

Both mechanisms may be easily exemplified, with reference to the case of Spain (or Ireland). An abundant and cheap supply of funds allowed there the financing of an investment boom and an apparently good performance of the economy, in terms of growth rates and reduction of unemployment; only to become aware later that almost all of this performance was only the result of a "housing bubble" , triggering dramatic recession immediately after its collapse at the onset of the financial crisis. Spain had registered , in fact, huge deficits in its current accounts in the apparently good years of growth: -7.3% of GDP in 2005, -8.9% in 2006, and -9.99% in 2007; no country, with an own currency and in a context of international capital mobility, could have avoided events leading eventually to currency crisis and devaluation.

For the perverse effect of keeping a common reference rate of nominal interest in front of differential inflation, Ireland can be taken as the reference. Ireland experienced inflation rates at around 6% over most of the 2000's, meaning negative real interest rates to the borrower. The situation contributed to another case of housing- bubble-led "boom and bust".

But it is not only the weak country, enjoying a "free lunch" in front of balance of payment deficit, etc., that may initially benefit from a common currency. In fact, if weak countries set aside devaluation risks in front of their deficits, the stronger country is freed from "revaluation risks" in front of consistent and persistent surpluses in its current account.

German performances for exports in recent years have been , in fact, comparable to that of China ; the surplus in the German current account reached levels worth 6.5% of GDP in 2006 and 7.6% in 2007, just specularly to the case of Spain. In any previous regime, Germany would have been forced, sooner or later, to a consistent revaluation for its "D-Mark", with a consequent containment of its trade advantage. This was the sort, by the way, of Japan over the recent decades. Being inside the Euro-area has permitted Germany to support continuing surpluses, which are in a greater part the counterpart of deficits of the other partners within an "intra- Euro- area" commerce[12].

The macroeconomic records of Germany have been proposed as a virtuous example for others, conjugating stability of prices, moderation of wage claims, high performance of productivity and exports, etc. But these were thus widely based on an "export-led" support in front of a stagnating domestic demand[13]. This model has sometimes been denominated as the "New German Mercantilism": with Germany, a part from some other smaller country, being the only country with a surplus position in the Euro-area ! This is, in my opinion, a further evidence of real divergence essentially sustained by the mechanics of a monetary union. The structural weaknesses of member countries, in particular from Southern Europe, in front of the challenges of global competition were, certainly, a fundamental, real factor behind these divergences. It remains however, at least to my comprehension, difficult to understand how these deficiencies in growth potentials might have been corrected only through a tighter budgetary discipline to be imposed to those countries.

At the "Federal" level, European Union is known for the plethoric inflation of staff and offices at its headquarters in Brussels, and for a high rate of production of norms, recommendations, and plans full of "wishful thinking" for the coming future. [14] However, as for the incidence of expenditures emanating from the "Federal" level, the annual budget in 2011 allocated to all organs of the EU was worth about 142 billion Euro, that is to say the 1.1% of the combined GDP of the greater Community ("EU27"). There is no parallel, indeed, with the size of an U.S. Federal Budget and expenditure capability.

Immigration flows into the core countries of EU have been consistent in the recent years, but consisted mostly of inflows from outside Europe (North Africa) and, after 1989, from the "transition" countries in the Eastern Europe, either now included in an enlarged Union (e.g. Romania) or still kept apart (e.g. Ukraine and other former Soviet Republics). It has been noticed, in the very recent period after the onset of the crisis, also an increase of emigration from the marginal areas of a Southern Europe (e.g. Portugal, Southern Italy) . Often, this is an emigration of younger persons with a higher education standard and lack of employment opportunities at home. But should this trend be confirmed, is this to be welcomed as a sign of a more integrated continental labor market ? Or this might involve losses of human capital potential , further impoverishing the growth prospects of the marginal regions ? Andalusia, or Ireland, were until recently cited as examples of the effectiveness of EU regional policies in increasing "cohesion" and in reducing territorial disparities. The crude figures on the recent rise of unemployment there, which have by now gone back to pre-developmental levels of the early 1980's, should warn us about the ephemeral nature of many "success stories", in the matter of regional development.

At the conclusion of the paragraph, I wish to correct somewhat the impression that, since the conditions for an "OCA" were not fulfilled, proceeding into a monetary union was the cause of all the misfortunes which have occurred after. In social sciences, "counterfactual" experiments are not allowed: had the weaker countries continued in the old-days circuit of inflation followed by recurrent depreciations, and the stronger countries were constrained on their export drive from the appreciation of their currencies, would the real outcomes in terms of growth and employment overall have been better ? We are not in condition to give univocal answer on this point.

The flaw came perhaps not from the project of Monetary Union in itself, but from the incompleteness and rigidity of a political governance on which this was founded. The weakness of governance and incompleteness of norms were to be fully revealed, only when the fundamentals of economic stability were hit by the disastrous impact of financial instability and crisis.

5. Financialization and the Euro-crisis

"*The architects of economic and monetary union had not foreseen the unfolding of the events that led to soaring sovereign spreads in peripheral economies of the Euro-area."* ; is admitted in a recent official document by the EU Commission. [15] It is then clear that at the moment of the setting-up of the working rules, the eventuality of a "Global Crisis" , putting at stake the solvability of greater financial institutions, and eventually, of Sovereign States, had not been even conceived as possible occurrences. Again, there was in this a shortsightedness of vision and over-optimism in expectations from the part of the architects of the Euro. The destabilization, by unregulated finance, of global economy precipitated into emergency the architecture of a construction which had already an in-built frailty.

The main factor of incompleteness often stressed, for the Euro constitution and the status of its Central Bank, is associated to the fact that this latter, in compliance with art. 103 of the EU Treaty ("No Bail Out Clause: see quotation above) , is in fact prevented from acting as "Lender of last Resource". The respect of the basic rule prevents ECB from direct intervention on the "primary" market, since this would signify a straightforward "monetization" of the public deficit, the fundamental "taboo" for the conventional wisdom of orthodox finance. "EFSF" and its successor, "ESM" were in fact been set up as facilities for a partial by-pass of this norm. Without this instrument, Portugal or Ireland, not to speak of Greece, would have since long defaulted. When speculation hit more consistent stocks of debt, Italian "in primis", ECB intervened on the secondary market to contain interest rate spreads, and lauched for the first time a "quantitative easing" measure, opening credit lines at 1% interest rate to the banks. A great part of this liquidity was "spent", by the banks, in the purchase of sovereigns, as collaterals in the event of necessity for liquidity "swaps". Paradoxically , ECB acted as a sort of "Lender of First Resort" to sustain banks and Treasuries, however contributing perhaps to worsen the perverse tie-up of the public and the private debt.

This interconnection among financial institutions, in which any default on one particular segment entails the risk of a systemic propagation of illiquidity and eventual insolvency, appears at the core of the global crisis originally erupted in the US mortgage markets , and of which the "Euro-crisis" might be seen as a possible complication for the worse. A "Monetary Union", originally conceived within the assumption of a continuing tranquility of the financial environment, can hardly overcome this turn of events.

This is not the occasion for entering definition, or qualification , for the notion and impact of the s.c. "Financialization" of the global economy. My principal opinion on this point would say, in synthesis, that sizes, unregulated mobility, and targeting at short-term gain, of a "financial" capital have become incompatible with the ordinary instrumentation of control of macroeconomic policies. There is actually no shortage, but perhaps an excess, of "loanable funds" , i.e., of a "money" capital, chasing for opportunities of placement for the "keep" and the "augmentation" of their values. There is, if anything, a shortage of "debtors" in the sense of a counterpart on the market demanding finance in front of long-term investment projects. An "inducement to debt" , from the part of the financial intermediaries, targeting even agents with little chances of honoring their dues, has clearly been evidenced from the "subprime" episode in the USA. The apparent abundance of funds may have, further, been inductive of lapse attitudes of some State in deficit spending and in increasing their stock of debentures. The implicit confidence was that abundant market liquidity would in any case allow "roll-over" of debts. Until recently, the market was indeed satisfied with holding these stocks, considered as safer than most privately originated bonds.

But as the "Lehman Shock" of September 2008 caused the first wave of global panic in front of the unexpected event that even one of the oldest and greatest investment bank in the world could go bankrupt, so the Greek crisis has revealed that sovereign European States might also go insolvent, as, e.g., Argentina in 2001. The Greek crisis might have been tackled more effectively, through a timely assurance given to the market , by the "Euro-Community", that they were prepared to cover all dues. The hesitations on this front, the reluctant attitude of the key country, Germany, in providing "ready" money, and the inconclusiveness of plans and projects aimed at a reinforcing solidarity among the Euro-area countries (e.g. the projects for "Eurobonds", jointly issued and partially substituting national debt, which has never taken off) [16] , have , step after step, reinforced market conviction about a structural weakness of the Euro constitution and governance. After the "domino-effect" investing smaller countries, the attack on Italian (and Spanish) debt revealed that the "market" had possibly entered a phase of an overall distrust of "Euro", as an instrument in which to hold "reserves of value" . The hypothesis of an ultimate collapse of the Monetary Union had become, by then, more than a remote eventuality, evocated only within small, discredited, circles of "Euroskepticals. "

However, before concluding considerations , we must refer to the impact of this situation over the real side of the economy: the enterprises and the workers.

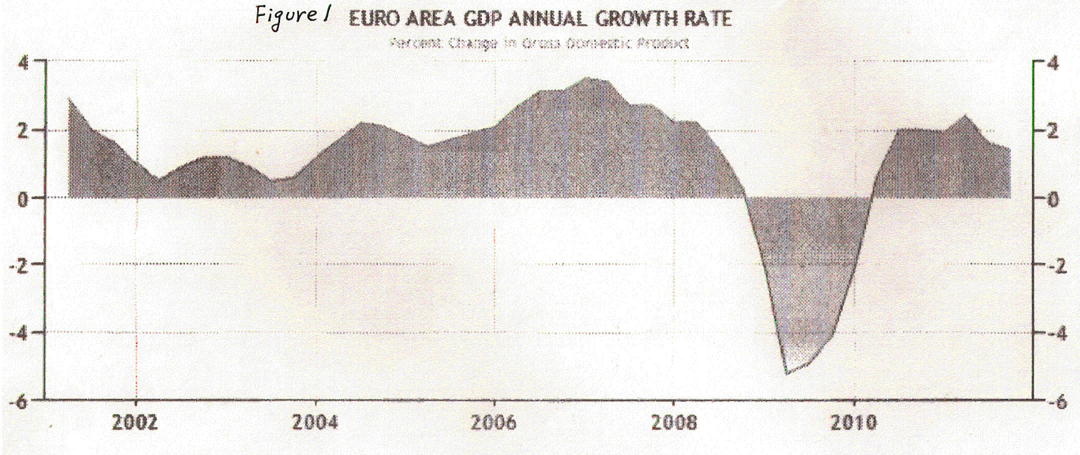
6. Facing a New Recession? The Consequence of the Euro-crisis for the Real Economy

The fundamental norms of operation of national fiscal policies of EU member countries have been ruled, as far, by the so-called "Stability and Growth Pact" , which has maintained with some amendments over time the original norms as set in Maastricht in 1992, for the limits to public deficit and debt.

The developments of Fall 2011 culminated with the dramatic EU Summit of December 9 of that year [17], which decided for a reinforcement of the fiscal coordination among the member states, through an even tighter regulation for public balances, with the prospect of immediate, and automatic, sanctioning of the countries going out of track. The announcement of revision, containing a "hard" version of the norm on a balanced budget to be defended in (almost?) all occurrence, has been effectively enacted with the enactement of the "Fiscal Compact" in March 2012. The norm of a balanced budget is now thus to be inscribed in the constitutional Charts of the adhering states. [18]

To an observer (as myself) , still convinced about the effectiveness of "Keynesian" correlations, a further tightening for the fiscal constraints, going much beyond "Maastricht", appears as a somewhat frightening prospect. Already within the old rules there was much stress on "stability" and little room for "growth"; is it then a case if, since the implementation of the common currency, the actual growth records of "Eurolandia" have been in the norm lower than that of other mature countries outside the area, not to speak of the emerging new industrial countries ? [19]

Figure 1



Reinforcing fiscal austerity, appears at this point to me, as increasing to the patient the doses of a medicine, which has not proved to be effective. In the meanwhile the patient might enter terminal condition.

Fiscal solidarity written in these hard terms has been in fact advocated , mainly by Germany, as the necessary precondition for "assuring the markets" on the will of pursuing and enforcing solvability of "Euro-debts".

But what for the impact on real economy ? In front of the evidence of a dip into recession of most countries of the area, may these hard budget constraints be credibly maintained ? And eventually, at which cost ? No room would be left for the operation of the s.c. "automatic stabilizers" , at a moment when unemployment rates are reaching record levels throughout the continent. The adjustment to the "Golden Rule", starting from current deficits still around 5 or 6% in 2012 in France, Spain, etc., would force them into a "pro-cyclical" policy deepening the slump. Moreover what if the European banks are compelled in the meanwhile to regain the levels of a "safety standard" of capital requirement ? [20] The reserve capital requirements should vary according the risk-ponderated value of assets in stock: but in such case, should, e.g., holdings of Italian debenture, be calculated at their nominal value at term, or should this be discounted, because of the depreciation on the secondary market, or of expectations over some "haircut" at some intermediate term, as learnt by the Greek experience ?

Some banks might be unable to raise sufficient capital. The financial market is still shaken by the event of the "near-default" of a greater Franco-Belgian bank, Dexia, whose operation has been preserved only after State guarantees, provided by French and Belgian Treasuries, covering some 90 billion worth of Dexia bonds in circulation. Will similar rescues be compatible with schedules and norms set for balancing public budgets ?

Signs of a "credit crunch" pursued by banks fighting to keep themselves within the safety benchmarks are evident, and are hitting in particular the smaller enterprises of the real economy strongly dependent, in the European context, from bank credit.

Much before the onset of the sovereign debt crisis, it had been stressed the weak prospects of many European economies as far as their real growth potential. A perception of risk, about some State defaulting eventually on their debt repayments, might then found itself not only upon a bad record of their current budgets . Regaining "stability", without "growth", is unlikely to be a sufficient condition for eventually exiting from the debt crisis. Italy is the benchmark case on this point. Aware of its vulnerability because of the historically high level of its Debt/GDP ratio, Italian Treasury (even under Berlusconi….) had pursued, quite for long time, prudential fiscal policies. Italy was in fact in a surplus position for its "primary" balance already in 2010, the only case amongst greater European countries. Italian banks were said to be relatively safe, because of their scarce propensity in the past into engaging in operations on derivative markets.

These prudential attitudes may, however, have contributed to a macroeconomic performance, which has been less than modest in terms of product and productivity growth, investment rates, with persistently high unemployment and underemployment involving a wide section of its territory (the *Mezzogiorno* in the South). The perception of an intrinsic frailty of the Italian debt position , and the onset of the speculative attack, was then perhaps not mainly induced by the evidence of mismanagement of public accounts, but from the fear of the implications over the longer run of a bad growth record, for the capability of meeting debt repayment schedules in the future. Would a country experiencing zero, or even negative, growth, be capable to service high debt burdens in the coming years ? The denominator, not only the numerator, of a Debt/GDP ratio is in fact important for the market expectation and sentiment.

But at this point it is not an Italian problem only. We ought to carefully reflect over the difficulty of recovering satisfactory rates of growth, over the whole of "Eurolandia", given the unpromising trends investing both the supply-side , and the demand-side, of its economies.

Mainstream approach notoriously gives stress to the supply-side, for the extrapolation of a "potential" growth. On this front, as far as the labor input is concerned, mature European countries would have experienced already a decline if not for the compensation from immigration. The "European Employment Strategy", as set by the EU Commission, announced targets for the rise of an average quality of the work force, and for the lengthening of the active life of older cohorts of population.[21] However, with persistent stagnation, these targets risk to remain a wishful thinking. A stagnating economy may not absorb an increasing inflow of skilled workers, giving rise to phenomena of "over-education" of workforce with respect to the actual requirements of job openings. Increasing mandatory retirement ages, or promoting incentives towards longer working lives, may further impact on the chances of a quicker inflow into employment of the younger cohorts, or impose additional cost to the firm compelled to "hoard" older workers in a moment of weak activity.

What about capital accumulation and investment rates ? National Accounts normally provide figures for gross investment; in mature economies, it is known that the greater part of this aggregate will be dedicated to capacity substitution, rather than capacity expansion. Actually, in periods of slump, net investments after subtraction for replacements might result in negative values.

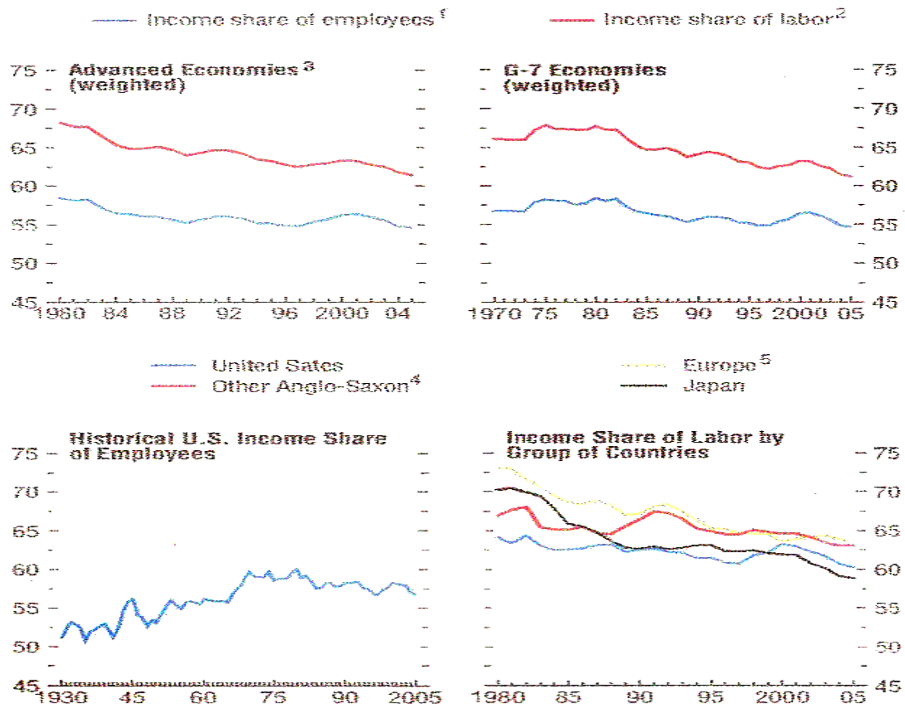
If we are satisfied with the conventional method of "measuring " technical progress from the "Residual" of a growth accounting exercise (the s.c. "Total factor Productivity") , we might see sluggish records overall in Europe for the last decade, even with notable cases of negative rates (a technical regress?) .[22] The objectives, set in "Lisbon 2000" agenda, for increasing the R&D to GDP ratios up to 3% have in the meanwhile failed, and are now reiterated in the "Europe 2020" agenda. But austerity budgets are not a factor encouraging higher R&D effort, by the State or the enterprise. There is a common sentiment that Europe has been an importer and adopter, and never an originator, of the greater innovations arising in the new "digital era".

Let us consider now demand-side, through an old-fashioned "Keynesian forecasting" for the perspective growth of the components of an aggregate demand. Private consumption has been sluggish in the whole of the Euro-area, including Germany, whose overall dynamism was only propelled by export performance. Can the prospect become better, when fiscal adjustments are implying further cuts in welfare provision and rise in tax burdens, hitting the real disposable income of the "median" European consumer, which has not practically increased for ten years ?

Global competition and shrinking power of the Trade Unions have contributed to a weakening of the bargaining force of a working class. The decline of a share of labor on total income is a common evidence , in the European countries as elsewhere.

Figure 2. Advanced Economies: Labor Income Shares
(Percent of GDP unless otherwise noted)

Over the past two decades, there has been a continued decline in the share of income that accrues to labor, especially in Europe and Japan. The income share of workers in unskilled sectors has dropped strongly while that of workers in skilled sectors has generally made small gains.



Declining share of labor would imply, in the “Kaldorian” causation, lower average propensity to consume for the aggregate economy. However, recently, saving rates in most countries have declined. But this may further reflect the increasing difficulty of middle-class households to keep up with the standards of living to which they were accustomed.

In a “classical” vision, with lower shares of labor meaning, conversely, a higher share of gross margins left to the firm or distributed as capital income to households, potential resources for investments might increase, compensating the negative impulses to aggregate demand ? The experience of recent past have however shown that in mature economies the real investment to income ratio has, in most case, not increased, even in front of a rising share of profit and rents accruing to the potential investor. While “gross margins” range at about 40% of a National Income in most countries, “I/Y” ratios often fall short of a 20% mark.[2,3] Besides, we should remind that in some countries most of this investment has gone to Housing, rather than to more productive uses, triggering bubbles on the real property market rather than technical progress.

“Luxury” consumption, as from Malthusian intuition, by the wealthier, has become by now an important element in sustaining aggregate demand: luxury goods and services, it seems, are those less affected by the cyclical events. But not all of a surplus income is being spent: a greater part will add to a stock of wealth , of a “reserve value”, chasing for opportunities at further valorization. In hard times, the simple “keep” of the wealth into safe stores of value might become a sufficient target. This brings to another important implication of “Financialization” : an increasing inflation of "assets", or titles of wealth, which does not translate themselves into sources for the financing of "real" expenditures, investments and enterprise, while they are purely transacted upon the purpose of short-term speculative hedge and gain. When a financial panic gains momentum, most of this "wealth" seeks refuge into some "safe harbor" , where nominal values might be preserved, waiting for better days. But there is now, over the Global Financial Scene, enough of "safe harbors" ? Subprime crisis has shown the frailty of greater banking institutions, on which the "Rentier Community" had relied for over a century; holding of public debentures was then considered a safer option for portfolios, because it was thought that States were less likely default than private operators, and debentures were readily exchangeable on secondary market into cash. But now the contagion of panic hits the sovereigns of one country after another. The Rating Agencies have alimented these sentiments, through the perverse game at downgrading , or menacing to downgrade, one after another. More and more of a "hot" money will be chasing for less and less "stores of values" perceived as safe (German Bunds, Gold ? Swiss banknotes ? There is much else left ?).

The response, by the national, and super-national institutions, entitled to the governance of the monetary and macroeconomic condition, has addressed this somewhat neurotic behavior of the financial market through attempts at providing them "assurances" about the sustainability of the debt instruments issued by States or banks. Unfortunately, these announces may not, until now, have been wholly convincing in calming down market sentiment.

The insufficiency of the policy instruments in front of the turbulence of the markets is evident. In the case of "Eurolandia", this impression of impotence has been enhanced by the original incompleteness of its founding rules, and , last but not least, by the evidence of a lack of political solidarity amongst partners. In the meanwhile, the recessive impact of the tighter fiscal rules aimed at assuring the market are working their way throughout the real economy.

7. What Ahead

Will the Euro survive ? Will other countries after Greece follow into partial defaults on their sovereign debt ? Will this event imply the exiting of individual countries from the Euro and reversion into a domestic currency ? But how such a process may be pursued, if the Treaties state the "irreversibility" of adhesion to the Monetary Union ? What are the costs of resisting into, or eventually exiting from, the Euro, for a crisis struck country ?

I have written down some "rhetorical" questions, which are however haunting the minds of everyone in Europe in these days. I can only see the unpleasant implication of each of those: "resisting" at the cost of continuing the perverse cycle of debt/fiscal adjustment/ deepening stagnation/further deficit/ further cuts, etc. ? This is the scenario of a "Greek syndrome", which is haunting in particular other countries in the Southern Europe.

What about alternatives ? A "partial" defaulting ("haircuts") while formally conserving Euro as a common currency, if consensually agreed among the partners, could ease the burden of debt servicing, but would charge losses mainly to the "domestic" banks already in difficulty. Should a bank enter serious difficulty in liquidity and capital positions, will the State (or ECB) intervene in rescue ? But then, deficits and debts risk to sour again, with the consequence of further loss of credibility and marginalization of the involved country, and perhaps of the whole Euro system.

A third scenario should imply, in a way or another, the end of "Eurolandia" in its actual extension. Either a weak periphery will be eventually forced to leave, or it might be advanced the option of a "split" between a "Northern" Euro around Germany, and a "Southern Euro" , appropriately depreciated, linking weaker countries. This could be still preferable with respect to a disorderly sequence of successive collapses, with countries defaulting , returning to domestic currency and pursuing competitive devaluation.

An unilateral decision, for which a single member country decides to exit from the monetary Union, is hardly spoken out explicitly by politicians in the European states, if not from marginal groups at the extreme right or left of the spectrum (e.g. the National Front of Marine Le Pen in France). There are in fact formal, "sentimental" and practical difficulties in advancing this option. The formal setting of the Lisbon amendment of the EU treaty , art.50, mentions the right of a member to opt out from the European Union all together, not from the Monetary Union. Before opting out from Euro, a country should then be prepared to be ousted by all other European Institution: single market, free circulation of people and money, regional and agricultural subsidies, etc. The shock and the cost will evidently be high. From the "sentimental" point, an expulsion from Euro-system would mean facing a historical defeat and admitting the failure of some twenty years of efforts and sacrifices , all claimed out of the citizen for the sake of the pride, and assumed benefit, of belonging to a Monetary Union federating an area covering some of the most developed countries in the world. Disillusion, and frustration, will be comparable to those following defeat at a War.

On a practical ground, the "change of currency" will incur into a series of other difficulties: risks at a "bank run" , flight of capital and hoarding of "hard" currency, the disruption of the frame of commercial and contractual agreements, and eventually, political turmoil and social disorder. Short-run competitiveness may benefit from devaluation, but it is not at all certain that the final effect, in front of rising inflation and further possible, negative evolutions, would be better with respect to that of an "austerity within Euro" scenario.

Voices appealing to solidarity, and proposals for innovative technical instrumentation---as for call for "Eurobonds"--- have been left behind, until now, by conservative and prudential attitudes mainly dictated by national interest and electoral calculus. But someone has said that, when a ship gets sunk, not only third class, but also first-class passengers will get drowned…..no country, or interest might eventually find a gain in the worst scenario.

At the moment of the redrafting these notes (January 2013) , the most dramatic manifestations of the "Euro" crisis, as those experienced in Fall 2011, with the titles of sovereign debt of many member countries pushed into unsustainable costs of refinance, may seem somewhat to have been contained. The "spread" on interest rates , e.g. for the Italian or Spanish debentures, are at less than a half of their peaks; even countries at time surviving on aid seem by now prepared for a "return to market" (e.g. Ireland). The decisive move for this turn has been the declaration of intent, by the Governor of the ECB, to be prepared to an "unlimited" purchase of sovereigns of weaker countries on the secondary markets, with a strong affirmation about the "irreversibility" of the "Euro". This apparently has pushed the market into less unstable expectations. The latest act of the Greek drama, when in December 2012 a final installment of the EU support plan , worth 34 billion Euro, was eventually paid out, in front of further "sacrifices" imposed to an already exhausted population, has been perceived as the proof that the stronger partners, Germany "in primis" , desire to keep "Eurozone" intact for a while.

Quoting from an authoritative columnist of the "Financial Times",[2 4] the Euro-system appears as "*bad marriage (in which) the union may still survive….because the costs of divorce are soo high"*.

Bad marriages often survive, but what about the final outcome in terms of partners' happiness (and of their innocent offspring)?

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[1] "Basle II"'s fundamental rule (s.c. "Pillar 1")establishes that minimum requirement for the own capital of banks should reach 8% of total (risk-weighted) assets value. For details, see Bank of International Settlements(2006). "Basle III", which is being gradually implemented, confirms the requirement with more sophisticated norms concerning evaluation of risks and merits of the credit positions, also for the "derivative" markets.

Successive events (change in Government, the enactment of a new austerity package, etc.) have brought down the "spread" for Italy, remaining mainly in the range 250-350; the uncertainty linked to electoral results of end February will rise further anxiety on the market, with unavoidable impact on the "spread".

[3] France's rating was in fact lowered on 1/13/2012 by Standard and Poor at "AA+", followed by similar moves by the other rating agencies.

[4] The quotation of the Article is from its original formulation as in Maastricht 1992, and the text was confirmed essentially in the same terms as Art. 125 of the Treaty on the Functioning of the European Union, set in Lisbon, December 2007 and definitively entered in force in 2009 after approval by all national parliaments of the member states.

Italy had to "roll-over" about 330 billion worth of titles of public debt in the first half of 2012. Only recently we have learnt that the ECB holds , at the moment, about 40% of total values of Italian debentures, with evident proof of the effort to sustain, on the secondary market, the demand.

THE "ESM" is now in operation for "conditional" aid to member states, with an allocation increased up to 800 billion Euro.

[7] For the governing rules of the ECB, the main reference is Art. 282 of the Consolidated Version of the European Treaty, see European Union (2008).

[8] In fact, through loans at 1% interest rate to banks and other measures of unorthodox "quantitative easing" implemented or announced as possible option in the case of necessity, ECB seems to have understood these risks and entered a practice already followed by the US Federal Reserve in situations of liquidity crisis.

[9] The estimate was taken from Alloway T. (2011).

[10] Announced in September 2011, and finally agreed with sufficient adhesion of investors , on March 8, 2012.

The seminal reference for definition of "OCA" is Mundell(1961). For a review of the debate centred on the perspectives for the Euro, see Eichengreen(1997), ch. 3 in particular.

[12] Intra_EU exports constituted about 64% of Germany's total exports in 2007. As last reference before the onset of the financial crisis, figures for 2007 are here provided: the Goods Trade Balance was in surplus by 269 billion $ for Germany, while France, Italy, Spain and UK all run deficits, respectively worth 71.8 billion , 11.6 billion, 137.5 billion, 184.7 billion.

[13] The index for the volume of private consumption in Germany, with 2000=100, stood at 109 in 2010, i.e. , an yearly average growth rate of less than 1%, a part from cyclical oscillations.

[14] For the most recent example of wishful thinking on some future Dreamland Europe, we refer to "Agenda 2020",, which specifies targets to be reached for employment, environmental protection, etc. , by the end of the decade. For full text, see EU Commission (2010) .

[15] EU Commission, Directorate General for Economic and Financial Affairs (2011a), p. 12.

[16] The issue of Eurobonds, under a "federal" guarantee of all member states, was timidly proposed in the occasion of December 2011 Summit by the official authorities at the level of EU council and Commission (e.g., by Mr. Barroso), but met, in that as in previous occasions , the opposition of Germany. Germany would indeed pay higher charges on part of its own debt eventually transferred into a Common Debt stock, and risk to be the "payer of last resort" in case of insolvency of other country….However, the proposal of transfer of all (or part) of national debts into a "federal" stock is still being invocated by many as the only , and definitive, solution if the Euro should continue to exist. For a detailed account on the possible institutional setting up for Eurobond issues, see e.g. Holland (2011).

For a concise analysis of the statements and comments in that occasion, see e.g. Peers(2011).

[18] The official denomination of the "Fiscal Compact" is "Treaty on Stability, Coordination and Governance of the EMU". More precisely, the norm establishes that a "structural" deficit should not exceed -0.5% of GDP; about the correct definition, and statistical calculation , of what is "structural" in a deficit, there is still ambiguity.

For comparative evidences on growth rates of Euro-area with respect to other areas in the world, see EU Commission (2011 b).

[20] ECB's move, on December 20, 2011, of opening credit lines to banks (Liquidity/Bonds swaps over one to three years terms) for 500 billion Euro was indicative that an immediate alarm on liquidity market positions and transactions were at that time clearly perceived. Banks immediately have drawn anticipations for 493 billion, practically immediately exhausting the availabilities out of the "quantitative ease" measure.

[21] These are included in the Agenda 2020 indicators. E.g. the targets for 2020 are set, for a 40% of the age cohort between 30 to 34 to have completed tertiary education.

[22] As from the growth accounting tables elaborated by the Groningen Growth and Development Centre, (and available in www.conference-board.org/), over the period 2000-2009, Italy registered positive values for an estimated TFP growth only in two years; Spain in none.

[23] E.g. , ratios of gross investment on GDP, in 2008, were at 18.5% in Germany, 22.0% in France, 21.1% in Italy, 16.6% in the UK, 18.0% in the USA. Full series are freely downloadable from the World Economic Outlook Database, by IMF.

[24] Wolf, M. (2013).

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