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The last few days have reminded me of the speculative attacks on sterling and the Italian lira in September 1992. Europe's finance ministers and central bankers at the time reacted with anger and incomprehension. Sterling's central parity in the exchange rate mechanism was as unsustainable then as [Greek public finances](#) or Spanish wages are today. Today's financial markets correctly perceive the eurozone as not addressing the imbalances. They are confused by shifting signals from [Germany and France about a bail-out](#). Investors have concluded that the probability of a contagious default is rising. They are right.

What has not changed since the 1992 crisis is that European policymakers and their economic advisers still lack a basic understanding of how financial markets react to policies or, in this case, to a lack of policies. At the moment, it is totally unclear what would happen should one eurozone country become unable to refinance its debt. I suspect there will be a bail-out, but I am no longer as certain as I once was.

The least helpful suggestion in this situation – one that has already contributed to investor panic last week – is to let the [International Monetary Fund sort out the mess](#). The argument is that the [European Union is not in a position](#) to provide emergency aid in an effective manner and that the [IMF](#) has the experience, personnel and the instruments to do so.

That is all true, but advocates of an IMF-led bail-out conveniently ignore the disastrous signal that this would send to the financial markets about where the eurozone is heading in the future. It would demonstrate that the eurozone was incapable of sorting out its own problems. The eurozone might end up losing so much credibility that investors started treating it not as a monetary union but as a fixed

exchange rate system
with a
finite time horizon
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One large investor I spoke to last week about IMF involvement immediately invoked the comparison with Argentina. Argentina was not willing to devalue. Greece is not in a position to do so. IMF-led programmes work better when currencies are allowed to devalue, as otherwise the adjustment would have to come exclusively through a fall in wages and brutal fiscal austerity. If the IMF came in, Greece might well go the same way as Argentina.

It would be so much better if the eurozone were to sort out its own problems. That would require a strategy that went beyond the [route prescribed](#) by the bloc's [stability and growth pact](#). The problem is the lack of a credible endgame. The pact contains detailed procedures of what happens when a government fails to comply with the wishes of other members, but it does not go beyond its ultimate sanction – a fine. Yet what is the point of fining an insolvent state? The endgame is still default – and contagion.

So why is Europe's policy establishment not working actively to establish robust anti-crisis policies? I heard it said in Paris and in Berlin last week that a bail-out signal would be misunderstood by the Greek public. It would end all efforts at consolidation. My answer to that is that it would depend on what signal policymakers were sending and what conditions were attached to the bail-out. Naturally you would want to make it unattractive, to avoid concerns about moral hazard. It would also have to involve at least a partial loss of sovereignty. No country in its right mind should want to take the money. Any that accepted it should know that it would have to live with highly undesirable consequences.

Such a system would not necessarily avoid default at all times, but it would help to [prevent automatic contagion](#). Countries that do not accept the conditions could still default but, in that event, other countries could have the choice to prevent a spillover by complying with the agreed procedure.

At the moment, in the absence of any framework, the threat of a default is transmitted automatically from the first to the next vulnerable country. Last week, the stock market [fell even more in Madrid and Lisbon](#)

Europe needs to show it has a crisis endgame

Пише: Wolfgang Münchau
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than in

Athens

. And, lest we forget, other European countries might also be vulnerable.

Austria

could still be

[drowned by its banking crisis](#)

;

Belgium

has a much higher level of debt than either

Spain

or

Portugal

and a financial sector heavily shaken by the

[global crisis](#)

. As worries spread north, serious investors might be tempted to bet serious money on a eurozone break-up.

At their special economic summit this Thursday, EU leaders should focus on the crisis rather than debating diffuse microeconomic reforms. More money for research and development is not the answer here. The EU needs to send out an urgent signal that it is willing to devise a robust anti-crisis policy. There is no need for such a policy to be in place this week, but the summit should give a clear signal to the world that the eurozone will sort out its own problems.

The policy will need to do the job, it will need to be compliant with current EU law – including the [no bail-out rule](#) – and it must include sufficient disincentives for any potential recipient. The EU summit is probably the last chance to end the ambiguity that Europe's headless finance ministers and the European Commission have created. The EU needs to give investors its own vision of an endgame. Otherwise we are back to 1992.