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Data Room Mkts

MARKETS INSIGHT

October 30, 2014 6:01 am

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Four rescue measures for stagnant eurozone

Willem Buiter

Bank stress tests an unconvincing fudge and big problems remain

Last week, 25 banks failed the asset quality review (AQR) conducted by the European Central Bank for 130 of the eurozone's largest banks. In the stress test performed by the European Banking Authority on 123 of the EU's largest banks, 24 failed.

These latter had a capital shortfall under the adverse macroeconomic scenario amounting to €24.6bn – 0.09 per cent of assets worth €28tn, 70 per cent of the EU total. After allowing for capital raised or converted since the beginning of 2014, 14 banks remained short by €9.5bn – about 0.03 per cent of assets, according to the stress test.



On October 27, Professors Viral Acharya and Sascha Steffen published an [alternative](#) estimate, using a different methodology, for 39 publicly listed eurozone banks with a combined balance sheet of €12.5tn (a subset of the banks in the EBA stress test and the ECB's AQR). They calculated a shortfall of €450bn at the end of 2013 – about 3.6 per cent of assets.

Both capital shortfall numbers are point estimates. Both are therefore bound to be wrong. Which one is likely to be closer to the true figure? I put greater faith in the estimate of Profs Acharya and Steffen. The EBA has a long record of stress tests that grotesquely underestimate the capital holes in EU banks. Both the [AQR](#) and the [stress test](#) relied heavily on national regulators and supervisors – the very entities on whose watch the excesses that led to the financial crisis were allowed to fester and compound.

They were in charge of the regulatory leniency that permitted the banks in their jurisdictions to engage in lender forbearance (extend and pretend/delay and pray) and to overstate the fair value of their assets. The adverse scenario was not

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particularly stressful – [no deflation](#), for instance.

In addition to still-hidden legacy losses from the financial crisis, new losses are bound to have piled up as a result of the miserable economic performance of the eurozone during the past five to six years. So my money is on Profs Acharya and Steffen as better guides to the capital that would have to be raised by the EU banking sector to put it on a sound footing. If this is correct, more AQRs and stress tests – this time without the assistance of the national authorities – are required.

In the meantime, the zombification of much of the [eurozone banking](#) system continues. Even if private domestic demand were to revive, either spontaneously or through external shocks or expansionary monetary and fiscal policy and supply-side reforms, the banking sector will not be able to support any incipient demand growth. The Japanification of the eurozone would result in a lost decade following the lost half-decade just experienced.

To avoid the cyclical stagnation in the eurozone turning into secular stagnation, four policies are required. The first is a proper AQR and stress test followed by a speedy recapitalisation of the capital-deficient banks and a wave of consolidation in the eurozone banking sector to bring higher profitability, and efficiency, to a banking sector with too many undersized banks. Cross-border consolidations would create more effective competition in each member state. Such radical measures might even boost confidence and optimism in the real economy.

The second measure is a temporary fiscal stimulus (say 1 per cent of eurozone GDP per year for two years, concentrated in the countries with the largest output gaps, that is, in the periphery), which is permanently funded and monetised by the ECB. To make the mechanics of this helicopter money drop more transparent, the ECB could cancel the sovereign debt it purchases. This third measure would be economically equivalent to buying and holding the debt forever (rolling it over as it matures), but rather more dramatic. Should eurosystem regulatory capital go negative, this will be a reminder that the most important asset of central banks – the present value of future seigniorage profits – is off-balance sheet.

Finally, to achieve debt sustainability for the eurozone sovereigns, radical supply side reforms are required that boost the growth rate of potential output to at least 1.5 per cent in Italy, Portugal and other sclerotic countries.

The eurozone’s ‘no monetary financing of sovereigns’ fetish hamstring the ECB. The instinctive anti-Keynesianism of the Teutonic fringe emasculates countercyclical fiscal policy. Domestic political paralysis inhibits structural reform. The AQR stress test was a fudge. Good luck, eurozone.

Willem Buiter is chief economist at Citigroup

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Willem Buiters

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The Dork of Cork.

6 minutes ago

If we look back to Irish trade records from 1930 to present.

We can see we were only ever in physical trade surplus during the hard years of 1941, 43 & 44.

It took the first euro depression of the early 80s to drive us into the arms of the european consumer war economy.

Beginning in 1985 we began to post exponential trade surplus as all energy was directed into exporting so as to source scarce money to pay off debt interest.

This means less energy for real basic consumption (rather than corporate conduit like consumption which eventually leads us to predictable credit banking crisis)

We posted our biggest trade surplus in 2010 at a absurd 44~ billion euros.

We are again showing signs of corporate non local conduit consumption (more luxury car buying etc) which is driving down this surplus but it will lead to another crisis just as night follows day..

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The Dork of Cork.

15 minutes ago

The single most important and devastating physical economy characteristic of the euro experiment (and I am talking post 1973 - 1979 for Ireland) has been the total breakdown of domestic national exchange during a series of credit inflations and subsequent money shortages designed to concentrate money claims to a darkly absurd degree.

Lets define what becoming competitive really means -it of course means you have a greater ability to export your wealth.

Meanwhile real local and national exchange has totally broken down as peoples purchasing power has been extracted.

The periphery cannot afford what the so called developed north (previously more banked) is selling.

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GDCC

18 minutes ago

" The instinctive anti-Keynesianism of the Teutonic fringe emasculates countercyclical fiscal policy."

This sentence expresses prejudice, stereotype and xenophobia. Furthermore, a loose fiscal policy cannot be emasculated because it has no testicles, neither literally nor figuratively.

Mr Buitter - and other reputable commentators - should stay out of populist rhetoric.

[1 Recommend](#) | [Reply](#)

el supremo

37 minutes ago

there ,there,mr Wolf and mr Buitter are in agrement!!

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Tim Young

1 hour ago

Another celebrity commentator who either does not understand central bank balance sheets or is advocating cheating the Eurozone taxpayer.

If the ECB gifts some peripheral countries a slug of base money, then as long as the ECB has an inflation target, meaning that the stock of base money is demand-determined, this simply represents a transfer of seigniorage income from the rest of the Eurozone. It would be more honest to just ask for a straightforward fiscal transfer to the periphery from the rest. Good luck with that!

As for Buitter's idea that the future value of seigniorage can be capitalised, it is naïve. If a central bank fails to satisfactorily maintain the value of its currency, it will soon lose the ability to get the public to take any more.

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RiskManager

1 hour ago

@Tim Young Can you think of a civilised sovereign country that would rule out fiscal transfers from rich areas to poor areas, regardless of whether the poor had only themselves to blame? I cannot. The Euro is barbaric, as is your proscription.

If you were treated by a doctor who killed you while applying a cure that would, the doctor argued, cure you in the end had you not died, would you have any cause for grievance against this single minded practitioner?

Watch the patient dying under your dead gaze. Its happening right now

[3 Recommend](#) | [Reply](#)

Tim Young

56 minutes ago

@RiskManager @Tim Young Two points: (1) I am not ruling out fiscal transfers, but I am certainly against them being hidden via the complex finances of the ECB. (2) In terms of household wealth, it is debateable whether these are transfers from rich to poor.

[1 Recommend](#) | [Reply](#)

Olaf von Rein

52 minutes ago

[@RiskManager](#) The UK? The economic policy of successive UK governments was designed deliberately (Thatcher) or accidentally (Blair) to bankrupt the north. You have some gall talking about transfer unions! People in glass houses and all that. Cough up the 2.1bn and we talk again.

1 [Recommend](#) | [Reply](#)

RiskManager

just now

[@Olaf von Rein](#) [@RiskManager](#) Pretty shallow stuff there Olaf. There are massive and permanent fiscal transfers within the UK from South to North which no one ever even mentions. That is because the UK is a civilised country.

Indeed, East Germany receives huge and permanent fiscal transfers within Germany. The South from the North in Italy.

Only within the Euro has civilisation been made illegal.

p.s. I am not against coughing up the 2.1bn either, we agreed to it. We should pay, and then vote at the earliest opportunity to leave your dysfunctional Union with great sadness at its ongoing total and utter failure thanks to the shallow and empty narrative peddled by your good self. Personally I think the UK should start EU2 based on free trade to provide a final destination for those exiting IMF programs having finally realised what your awful Euro is, a debtors prison that they walked into of their own free will

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Teutonic Fringe

6 minutes ago

[@RiskManager](#)

Can you think of a civilised sovereign country that would violate the law, and deliberately obscure the fact that transfers from presumably "rich" to presumably "poor" areas is taking place, with no democratic legitimacy whatsoever (and I am not one of the "the EU is not democratic" nutters, but the institution ECB certainly isn't democratically or otherwise entitled to redistribute wealth in Europe).

Key to modern Western civilisation is the rule of law. Undermine the rule of law is undermining our civilisation.

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MetroGnone

21 minutes ago

[@Tim Young](#) Tim, a well written sanely argued point. I'd be inclined to agree with you but for one exception. The money (call it what you like; debt, loans, IMF disbursements) that originally made its way from the North to the South (and now in the hands of almost exclusively official sector players) is gone.

There's no chance of it ever being repaid and those losses have to and will be recognized at some point. So the transfer of income that you describe has actually happened. It just need to be recognized.

Much like when losses occur but are recognized at a later stage. To argue that losses haven't occurred or that they will somehow not be necessary to face facts is admirable but not realistic.

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BajanBoy

2 hours ago

Biggest problem the EU faces right now is ultra-low interest rates... you need a PhD in Economics to believe that ultra-low rates is accommodative... for everyone else common sense dictates the opposite.

1 Recommend | Reply

Goldsword

2 hours ago

Message to Germany. Resist QE. It does not work. It only makes matters worse.

Recommend | Reply

madmax

2 hours ago

Greece yields going over 8%.....

Recommend | Reply

The Dork of Cork.

2 hours ago

Good riddance eurozone.

Buiter wants to do just enough for the greatest and most destructive experiment in bank overlordism since the 19th century British banking union.

No thanks.

Another reader (Olaf) says

"All that the euro does is to highlight the underlying structural shortcomings. And all your beloved local currencies will do is to hide them under the carpet of a soft currency. Great "solution"."

Sure - it hides shortcomings - but they are not really structural in the physical economy- they are inherent in bank issued money.

Soft money is devastating in its own way as it gets local national banks off the hook but it at least allows people to move on from a stock and flow crisis.

There is another way.

Social credit

No need to pay for the banks assets depreciation then.

These conduit "assets" have in most cases nothing to do with real people anyhow.

1 Recommend | Reply

ek

2 hours ago

Willem Buiter: "There's a 90% chance Greece will flee the euro currency in the next 12 to 18 months." Said in July 2012. A miracle happened then?

<http://money.cnn.com/2012/07/26/investing/greek-eurozone-exit/>

Buiter doesn't trust the AQR, because the first stress was not strict enough. But why should we trust his judgement when he is such a doom prophet all of the time? (Roubini had at least guessed right once, while Buiter hasn't)

1 Recommend | Reply

genauer

4 hours ago

The endless propagation of financial crime ("the ECB could cancel the sovereign debt it purchases") shows the clear need to withdraw the banking licence for CitiGroup.

What Europe needs is a much more robust response to its real enemies, those who want to systematically destroy the rule of law.

As long as Buiter is "chief economist" all first and 2nd tier management of Citi should be put on Russia like travel ban and asset freezing lists

1 [Recommend](#) | [Reply](#)

▼
Adam Bartlett

3 hours ago

[@genauer](#) I'd agree an even more muscular response is needed than the one proposed in Mr Buiter's excellent article. And it should be directed at those who are indifferent to the suffering (relatively) hawkish policy is causing to Europe's millions of unemployed and low income households. In some countries more than half of young people still lacks jobs.

2 [Recommend](#) | [Reply](#)

MetroGnone

32 minutes ago

[@genauer](#) "He who is without sin among you, let him be the first to throw a stone". Remember the 'original sin' making a mockery of the Stability & Growth Pact?

Or did you mean the persistent massive undershooting of the ECB's targets and by extension its legally binding mandate of price stability?

Sorry, you clearly mean how the Irish were forced to take over the banking debt and make the Franco-German banks whole while in Cyprus it was the "Russian Criminals" (together with all locals) that took the pain.

The sooner all parties drop the pseudo-moralistic frame of thinking; the closer we'll be to a common solution. (Hopefully you still remember what 'common' means, right?)

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Olaf von Rein

4 hours ago

Can we get real for a moment? I read the other day here the utterly shocking (-ly deficient) defence of QE by our esteemed central bankers as regards "inequality". No, QE does not beget inequality (government policy does). I thought that 5 years into the project economists were slowly beginning to understand why Bernanke's "QE does not work in theory..." was right. We can never know the counter-factual, but it very probably does not work in practice either.

QE produces a money that will not reach the High St. It is a useless tool to create "demand". All it seems to be doing is to bail out some asset holders. But it doesn't even do that. It is just a world of make-belief.

Perhaps make-belief is good? We all probably know one fool or another who each time they walk their dog check house prices at their local estate agent and when those go up, buy new carpets. And by means of this feel-good psychology, perhaps QE somehow contributes to consumption. And perhaps the carpet trade will be our road to salvation?

None of this seems very sensible. (Although it is fully rational that someone like Buiter who creams off the top of our money supply should argue for an increase.)

High time to stop with the ineffectual monetary fiddling and be bold with government policy. Let's have some transfers within our "unions". (I found it most amusing in this context that a

people who cannot stop lecturing the Germans on helping out the Greeks throw their toys out of the pram when stung themselves by a little transfer request for €2.1bn.)

2 Recommend | Reply

ExPM

3 hours ago

@Olaf von Rein Much better to use funds to relieve household debt burdens or better, cut them. This will both balance the income divide and create sustainable growth.

Recommend | Reply

Olaf von Rein

2 hours ago

@ExPM I am not sure where you are coming from. To be totally clear: A balance sheet funds assets by means of liabilities. It *must hence be thus* that when asset prices rise (by means of QE, say) that "household debt burdens" must rise.

This is also why QE does not beget inequality. It is impossible to sell a house to a non-asset buyer without granting him the means to fund it. The property-owning class can swap houses amongst each other all they like - I don't care (and neither do they, incidentally). What they cannot do is liquidate these asset (by off-loading them to someone of the asset-poor generation). Once more, they can only swap that asset for a mortgage - the price of which (ie its interest rate) shall be dictated by the buyer. And - guess what? - in Buiter's world the price of that money is only gonna go one way...

Recommend | Reply

Tim Young

2 hours ago

@Olaf von Rein I am afraid that I do think that QE works at boosting economic activity in the UK at least, but in a self-destructive way. High house prices act as a vacuum pump for foreign capital - ie asset sales to foreigners - which is presently adding about 5% of GDP worth of extra spending across the UK. The trouble is that we will be spending an increasing amount of income on servicing these assets in future.

Recommend | Reply

Olaf von Rein

1 hour ago

@Tim Young You argue that a Russian oil producer derives lots of GBP from his UK sales which he cannot recycle in Russia so must spend on something in the UK. I don't think we need a Russian in this scenario - it also works with domestics. A HaveNot can mutate himself into a Have by subtracting money from circulation (via profits). This depresses demand. So, I guess, when the process is reversed (and these profits are exchanged for some asset), this might be stimulative. But, assuming that this fellow follows the same course of action, QE or not, then QE might actually depress demand since our chap now needs to save up for so much longer...

Mind, the time-shifting of demand does not really work like this since in the process of "saving", our chap lends to other HavenNots who immediately consume... So, I return to my initial thesis: all make-belief.

Recommend | Reply

Musso

4 hours ago

* *"the adverse scenario was not particularly stressful"* ? there was no single stress test scenario, but many, one for each country and very diverse the one each other and yes, the EBA has come with assumption that are amazingly *"not particularly stressful"* for certain countries: *ex-multis* German residential and commercial property to growth by +2.3 and by +1.0 in 2016, compared with a -3.3 and -1.6 for Italy. People like Mr. Buiters, are now looking for their new Dexia (one bank, maybe two, that got a pass in the STs but will now miserably fail however), then crying even lauder that the *"AQR stress test was a fudge"*, etc..

* On the other side, the only option left to the ECB is to speed-up its ABSPP-ABS purchase program: run it now and run it large, as the resulting relief for financial stocks will make the SSM exercise to become something serious *ex-post*, thus Mr. Buiters' curse to become irrelevant. Meanwhile, better to keep in mind that for the Buiters to make really lot of money, the new Dexia must be not one of the usual suspects.

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▼

Eagle1

2 hours ago

There are no ABS to purchase... if the objective is to push spreads tighter and be the market, then fine. there are limits to the monetary policy impact that ABS will have at €2bn per week, good luck.... Europe needs to create an active capital markets for NFI financing across the lending risk structure - not one where the ECB is the only buyer in the market and funds hold on to the only securities they have which yield something > 0bp...

[Recommend](#) | [Reply](#)

Musso

2 hours ago

@Eagle1

In fact there are no ABS to purchase yet ... and *"at €2bn per week, good luck"*. Add the funny EBA declaring today its own stress test on lenders in the region wasn't foolproof ... and you get the whole picture. => Then and again: the only option left to the ECB is to speed-up ABSPP: run it now and run it large.

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Nautilus

5 hours ago

How about a genuine single market for services within the EU as a fifth policy initiative ?

[Recommend](#) | [Reply](#)

▼

Olaf von Rein

4 hours ago

@Nautilus Yes, easily written in a single line, isn't it? The EU has made great strides in that direction (think medical doctors) - despite howls from local interests. In practice, a single market in services is a fiendishly complicated thing.

1 [Recommend](#) | [Reply](#)

Bukharinlives

5 hours ago

I have a fifth solution, if the European Commission sends out a Nigerian email.....

Guitar and Gear reviews at <http://guitarinyourpocket.wordpress.com/>

1 [Recommend](#) | [Reply](#)

Numbpage

5 hours ago

come back Maverecon

3 Recommend | Reply

@daviddenton20

5 hours ago

Until the Eurozone engages in de-leverage there will be no escape from secular stagnation.

<http://getwd50.blogspot.co.uk/2014/10/solving-secular-stagnation.html>

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bearhouse

5 hours ago

"The instinctive anti-Keynesianism of the Teutonic fringe emasculates countercyclical fiscal policy."

3 days in jail or 10,000 USD fine...

2 Recommend | Reply

Brutto

6 hours ago

Speed read: why-oh-why can't the ECB just print the money people want and hand it out. Woe is us.

1 Recommend | Reply



Olaf von Rein

4 hours ago

[@Brutto](#) I got there too. Really original (sic).

Recommend | Reply

zizu

6 hours ago

Citi research, Willem Buiter, Global Economics View, 21 october 2014: page 25 paragraph 5.1: "taken together, we therefore think tat the CA likely meets the minimum standards to be called a success."

Now, dear Sir, at page 29 you wrote that economic assumptions were not that tough but this didn't prevent the overall positive judgement above. The fact that deflation wasn't included was known so that shouldn't be an issue for you.

So, have you completely changed you mind in one week even if the stress test was completely in line with expectations?

The CA maybe is not fantastic, but at least says that if the scenario envisaged happens the banking system is reasonably sound. That's it. It won't be sufficient to solve euro problems but at least it's a step (and you acknowledged this in the Citi report above).

4 Recommend | Reply

gkmuc

6 hours ago

Buiter writes a nice intro for Citi's M&A guys on banking sector consolidation. Excessive consolidation in banking undermines competition, just look at the UK banking oligopoly which has been keeping competition regulators busy for a long time while ripping off retail and SME Clients.

In markets with "many undersized banks" such as Germany the banks may complain about profitability but customers can exploit the competitive nature of an overbanked market.

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MatsM

5 hours ago

Borrowing is cheap in Germany for one reason: hint it's not efficient or competitive banks.

[Recommend](#) | [Reply](#)

gkmuc

3 hours ago

[@MatsM](#) compare mortgage rates in QE-flooded UK and Germany and you will understand what I mean

[Recommend](#) | [Reply](#)

macro:credit

6 hours ago

The AQR was a fudge and Greece is exiting the euro... wait a minute - that's what you said 5 years ago...

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ohneigenschaften

6 hours ago

"radical supply side reforms are required that boost the growth rate of potential output to at least 1.5 per cent in Italy, Portugal and other sclerotic countries."

And pray tell, what are these "magic bullet" supply side reforms? The Lisbon Strategy was supposed to have provided them in 2000, but that is now seen to be an abject failure.

As Paul De Grauwe has pointed out, supply side measures will not solve a demand side problem.

3 [Recommend](#) | [Reply](#)

AN007

6 hours ago

Only a Citigroup economist can find bank consolidation as the solution.

"Big is beautiful" couldn't be more far apart from the needed solution. Scale is the solution for industries with economies of scale, which banking is not. As Mr. Buiter should know.

1 [Recommend](#) | [Reply](#)

Teutonic Fringe

6 hours ago

Let's start with measure four, and if it doesn't work within the next 5-10 years (unlikely) and once the EU Treaties have been changed to legalise measures two and three, let's try the rest.

As concerns measure one: why not let the stupid banks fail, rather than recapitalise them (with whose money, btw?) and let the remaining ones take over their business. It's not like there is not enough money around, but where to invest it...? London real estate, US stocks, Chinese bonds, or Greek high tech Mittelstand? (Hint: that's a trick question, one of the four options doesn't exist yet.)

Kind regards,

The Teutonic Fringe

2 [Recommend](#) | [Reply](#)

MatsM

7 hours ago

Great post, lovely prose, very enjoyable. no one will listen!

3 [Recommend](#) | [Reply](#)

Sceptical German

7 hours ago

Sir, you forgot rescue measure number five, which is the most important one in my opinion: Don't wage silly sanction wars crippling trade and the economy!

3 [Recommend](#) | [Reply](#)

▼
Teutonic Fringe

6 hours ago

Don't pretend to be German, Ivan.

3 [Recommend](#) | [Reply](#)

RiskManager

7 hours ago

Of course these are the solutions if the Euro is to continue with its current membership, but these solutions are simply politically impossible which leaves only one solution, managed break up of the Euro, a return to national currencies under IMF programs and devaluation/default.

Surely this is apparent to all? All Eurozone countries cannot be like Germany because everyone cannot run a surplus. Without an external surplus Germany is a failed economy. Germany requires a surplus yet demands no one else runs a deficit.

The Euro as constructed simply cannot work. This has always been apparent to anyone who thought for more than a second about the subject. That's worth pondering on. The EUro is, I propose, a symptom of a deeper and much wider intellectual malaise.

Think of all the things you "knew" to be true over the last decade that have in fact turned out to be rather embarrassingly wrong. Lots of them aren't there eh? What's been happening to peoples minds? Can you find periods in history when something similar happened in Europe?

3 [Recommend](#) | [Reply](#)

▼
Olaf von Rein

4 hours ago

@RiskManager BORING !! When will it dawn on you that NOTHING will change following a break-up of the euro?!? The days of the Lira aren't that long gone that you could not try to prove your theory. When exactly was Italy a booming, liberal, free-wheeling market-economy not stifled by corruption, crime and bureaucracy?!

All that the euro does is to highlight the underlying structural shortcomings. And all your beloved local currencies will do is to hide them under the carpet of a soft currency. Great "solution".

As to "Can you find periods..." try the Roman empire first, then later the Catholic church.

2 [Recommend](#) | [Reply](#)

gkmuc

3 hours ago

[@Olaf von Rein](#) [@RiskManager](#)

The whole point is that for a country such as Italy the adjustment mechanism of a currency devaluation is infinitely easier than improving competitiveness by implementing reforms. Italy lost about 40% in terms of unit-labor cost competitiveness relative to Germany since the late 1990s- there is no way that this gap can ever be closed inside the currency union.

Besides, there was something in the booming 1950s and 1960s that the Italians call il miracolo economico. For all its faults, Italy still is a remarkably wealthy country today, for instance measured in net household assets.

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genauer

3 hours ago

[@gkmuc](#) [@Olaf von Rein](#) [@RiskManager](#) and from those high Italian net household assets, see OECD Annex 58 all Italian public debt can and will be paid.

The idea that poor honest German renters should pay the public debt of rich tax cheating italian house owners, is plain anti-social criminal.

2 [Recommend](#) | [Reply](#)

Tim Young

3 hours ago

[@Olaf von Rein](#) [@RiskManager](#) Spot on. I suspect that those who raise the existence of the euro are those who never did like it. Unfortunately for them, the Eurozone public understand that money is not the problem, and will resist any expedient attempts by their politicians to throw off their euro shackles. I think the euro is here to stay, but it might end up being more overtly run by the Germans.

1 [Recommend](#) | [Reply](#)

Eagle1

2 hours ago

Indeed - same for other countries whether France, Greece or Spain - if the Euro had not been there and there had not been a sovereign spread blow out, every single one of these governments would have been running a far greater deficit and borrowing on with zero appetite for any structural reforms. Spain got the message, Italy as well but going nowhere fast and the Greeks are reluctantly doing reforms but not changing the fundamental deficiencies of their system, whilst the French government pretends not to acknowledge but finally starting to only barely budge....

The key benefit of this Euro straight jacket is that all these countries who used to perform intergenerational robbery via inflation and devaluations now have to stop and think about the real structural issues.

1 [Recommend](#) | [Reply](#)

Musso

1 hour ago

[@Eagle1](#)

If the Euro had not been there and there every single one of these governments would have inflated and devalued.

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RiskManager

1 hour ago

[@Olaf von Rein](#) [@RiskManager](#)

Olaf, do you proscribe all Eurozone countries having external balance or surplus?

If not then how can anyone sustain a permanent deficit in a fixed exchange rate monetary union

If yes then who in the world will run the deficit against the Eurozones net surplus?

As for whether people who are doing something wrong (according to you) should be forced to change why is it that you have a veto over other peoples actions? Maybe they should do what you say, but democracy suggests peoples of sovereign nations should make their own minds up. Can you not detect the stench of Imperialism in your proscription for others less virtuous than yourself? Is this the modern German Mans Burden?

Yes the Euro highlights the underlying problems, and turns them in an economic catastrophe with half of the youth of Europe not knowing work for the first 10 years of their working lives.

You make a desert and call it a hospital. So cruel. So thick as well.

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Olaf von Rein

1 hour ago

[@RiskManager](#) Assertions and polemics, that's all we ever hear from you. I did not say half the stuff you ascribe to me! And once more you simply give up on your indefensible line on currencies and swing over to drivel about "democracy" and "sovereignty". Have it your way - what exactly did the sovereign people of Greece democratically decide when asked whether they wanted to exit the euro... ? Nuff said.

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RiskManager

1 hour ago

[@Olaf von Rein](#) [@RiskManager](#) Olaf, I asked you a set of very simple questions which you seem to have ducked a few times now.

Please do me the courtesy of addressing them directly.

1. Do you proscribe all Eurozone countries having external balance or surplus by reforming to be like Germany
2. If not then how can anyone sustain a permanent deficit in a fixed exchange rate monetary union
3. If yes then who in the world will run the deficit against the Eurozones net surplus?
4. Perhaps the German economy model work without an external surplus. Do you think it can?

Looking forward to some numbered answers.

If you duck these questions yet again then what is your offer to the members of the Eurozone that, due to their relative weakness, cannot avoid a deficit with Germany?

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Olaf von Rein

56 minutes ago

@RiskManager

1 - "prescribe"? No.

2 - No-one can. Neither inside nor outside a currency area.

4 - Yes.

I have a simple remedy against structural imbalances which no-one wishes to implement. So the natural consequence is migration.

So perhaps this is the question you are trying to elicit from me? Yes, freedom of movement is an absolute requisite for the euro to work. Which is why Cameron shall get nowhere. In fact, his very attempt to close UK borders is an expression of the same mercantilist stance that you so decry in Germany.

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RiskManager

7 minutes ago

@Olaf von Rein

Since you agree no one can sustain a permanent deficit either inside a currency or with their own sovereign currency then how can Germany run a permanent surplus with its Eurozone partners? I think we seem to be agreeing it cannot. This is simply a matter of your customer having the wealth to purchase your goods, so if Germany runs a permanent surplus against them then their wealth is, by accumulation of debt or by devaluation of their currency (and thus the wealth they hold), eventually exhausted and they can no longer purchase, nor indeed pay for past purchases.

I see you cleverly used my poorly chosen word "proscribe" to avoid answering Question 1 and then ignore Question 3. That is because you want the entire Eurozone to free ride on the demand of the rest of the world, all but the USA which is much much poorer than Europe. I would note that in the long run Europe has no effective army if that is what you decide to do.

On 4, how do you think the German economy would look had it not run a 5% or higher external surplus for the last few decades? The answer is much smaller and much poorer. Why do you not see virtue in a balanced external position? Maybe you do, do you?

There is no answer I am trying to elicit from you, I am merely asking you to explain what it is you want to happen to Eurozone members and how you think this can ever work and deliver employment and prosperity to Europeans.

As for migration and free movement, I am for it. You cannot avoid me by ascribing others arguments to me.

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