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**Re-Define commentary on The Systemic Crisis in the Euro Area and the ECB**

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With Spanish and Italian borrowing costs staying stubbornly high, an increasing possibility of the collapse of the new Greek debt deal agreed just in July and the collapse of growth in Germany and France the Euro area is now in the grip of a serious systemic crisis.

How we got from what started out as a fiscal problem in one of the smaller economies in the Euro area, Greece, to this systemic crisis is a tale of bad politics and bad economics. EU leaders and institutions have failed its citizens repeatedly in the past three years. Sensible policies such as reducing the stock of Greek debt, forcing a greater and faster recapitalization of EU banks and designing a bigger and more flexible European Financial Stability Fund from the outset were rejected by the European Council, Commission or Central Bank, sometimes by all institutions at once.

At this late stage in the crisis, once Spanish and Italian spreads spiked and the credit worthiness of France was questioned by the markets, revisiting these sensible policies is still necessary but no longer sufficient. Serious damage, some of it permanent, has been inflicted to the EU economy, its workers and even to the European project.

Broadly speaking, Europe, the Euro area in particular, faces four major problems at this stage: The spike in borrowing costs for an increasing number of countries, the adoption of excessive short-term austerity, banks that continue to be weak and a collapse of current and expected growth that has made millions jobless. These problems have amplified each other and, together with a fractious political discussion, caused panic and fed uncertainty about the medium term prospects for the economy.

Given the scale of the problems the EU faces now, only two solutions can be guaranteed to stem the panic, restoring confidence and creating space for growth: An expansion of the ECB bond purchase program or an issuance of Eurobonds or some combination of both.

Juergen Stark, who has just resigned from the ECB was against both these exits from the crisis. He has spoken out repeatedly against Eurobonds and in recent weeks has privately and publicly strongly opposed the ECB’s decision to purchase Spanish and Italian bonds.

If the ECB’s council had not acted sensibly against the wishes of Mr Stark and the three other members of the council who voted against bond purchases in August, there is little doubt that the crisis in the Euro area would have been even worse than it is now.

The US, UK and Japan are all in a worse fiscal shape than Spain yet are able to borrow at reasonable rates in the markets because their respective central banks have supported the governments during the crisis by cutting rates aggressively and purchasing government securities. A bold statement from the ECB wherein it signalled a commitment to do ‘whatever it takes’ ,for example through buying Euro area sovereign bonds to normalize the excessive borrowing costs faced by solvent sovereigns such as Spain, would undoubtedly stem the panic in financial markets.

While fiscal and structural reforms are needed in the medium term, with the collapse of growth and an unemployment rate well above 20%, what countries such as Spain need today is job-creating investments, not ever greater austerity. Further actions by the ECB or the introduction of Eurobonds, even temporarily, would give Spain and other Euro area countries the policy space to restore growth and create jobs. Mr Stark’s departure makes such measures more likely. His brand of ideological rigidity has no place in tackling the systemic crisis faced by the EU.

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