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NEW POLICY BRIEF:

The Eurozone's Arrested Adolescence: Sketching a Way Out of the Crisis

The Eurozone crisis has been reinforced and prolonged by leaders' inability to agree on robust and credible crisis responses. Individual governments are experiencing sovereign deficit and debt crises, but not the Eurozone at large. Its fiscal position is manageable. The Eurozone is rather going through a *crisis of the sovereign – or a crisis of government*. Fredrik Erixon in his new [policy brief](#) claims that too many of the crisis solutions offered by Eurozone leaders have commanded neither authority nor electoral legitimacy.

At the heart of the Eurozone crisis is the quest for ultimate responsibility: at which point is responsibility no longer passed on to others? Or as Harry Truman would have phrased it: where does the buck stop? What markets need to know is: if the euro system is getting close to its breaking point, will anyone step in to stop it from breaking apart? Arguably, there is only one actor in Europe with pockets deep enough to offer such a systemic guarantee for the Eurozone. And it is not Germany. In fact, it is delusory to think that Germany, or any other government, has the economic and political capacity to give the systemic guarantee of the euro's survival that is now absent. No, that actor is the European Central Bank.

Much needs to change for the Eurozone to get out of the crisis. But it must start with a clearer role of the ECB as a lender of last resort to sovereigns. Other measures to support distressed governments are necessary, but they cannot substitute the ECB. The bailout funds will not be able to get as much capital that is necessary to calm markets. And Eurobonds or other larger projects to mutualise accumulated debt are unlikely to be the solution to the current crisis. Eurobonds may be established in the future, but not before the current debt crisis been resolved. The pace of fiscal adjustment needs to slow down in some countries – and, more generally, crisis responses must be more sensitive to the sources of economic problem and where countries are in the recovery cycle. Importantly, structural economic reforms, pushing medium-term economic growth, are necessary to avoid long processes of fiscal adjustments.

[Download the policy brief here](#)

Paper details

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Media

For further information, please contact Fredrik Erixon at fredrik.erixon@ecipe.org
or +32 (0)499 053 107