

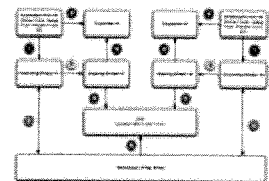
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EUROINTELLIGENCE BRIEFING NOTE



The Flaws of the Central Counter Party Idea

16.03.2011

By: Satyajit Das

This paper takes a detailed and critical look at the CCP - the basic idea behind, its design, risks and effects on the market.

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MUNCHAU'S COLUMNS

Muddling through is

25.06.2010

SUFFOCATING EUROPE

By: Jörg Bibow



A grand idea has gained currency among Germany's political elite:

Germany must no longer be too shy to set its own national interest ahead of the European project. The chauvinism behind it is so modestly camouflaged that the Bild-Zeitung is having a ball in thrashing it onto the common man in ways that has no parallels in democratic Germany. What are they thinking, if they are thinking at all? Were Adenauer, Schmidt and Kohl really traitors who sold out on Germany's national interests? Today, Germany once again thinks it knows what is best for itself. Unilateralism is back, setting out to conquer Europe by economic storm. Take it or leave it, Europe! Germany's political leadership will soon have to answer what spooked their minds in believing that suffocating Europe might be in Germany's national interest. For suffocating Europe is precisely what Germany set out to do in its new-found egomania. At this weekend's G-20 summit meeting Germany will try to defend its

GREEK DEBATE

Germany is unfit for the euro

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Finally a deal, but I am still sceptical

 By: Wolfgang Münchau
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Why Greece will default

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Why an IMF solution is most likely

 By: Laurence Boone
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The Greek crisis and the future of the Eurozone

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 By: Henrik Enderlein
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How should the Eurozone handle



Greece?

By: Daniela Schwarzer
and Sebastian Dullien

01.03.10

The Euro Area's political constraints

By: Wolfgang Münchau

16.02.10

policy of unconditional austerity to the rest of the world. At home the Merkel government hammered out an austerity deal dreamed of as making compliance with the constitutional balanced-budget rule come true; budget cuts no matter what as far as the eye can reach. This will boost confidence and thereby the recovery, we are made to believe. Europe should follow Germany's unilateral move and sign up to constitutional balanced-budget rules. At the very least Europe needs a new "Stability and Growth Pact" with real bite, profligacy and German taxpayer-sponsored bailouts must end here and now.

Germany never believed in fiscal stimulus anyway. Only when exports were falling off the cliff did Germany reluctantly agree to contribute to the EU and globally-coordinated crisis response. The Bundesbank president recently declared that a mistake. Apparently, the stimulus package has caused the budgetary troubles of today.

Pronouncements like these will be widely believed. As the stupefying effects of decades of Bundesbank indoctrination have left a wasteland in public understanding of matters of economics. As soon as the ECB took some trivial amounts of government bonds off the market to counter contagious market

no option

16.03.2011

By: Wolfgang Münchau

There are only two ways to resolve a debt crisis: through bail-out or through default.

GLOBAL ECONOMIC SYMPOSIUM**A repository of solutions to global problems**

25.06.2010

For two years now, leading policy makers, academics and businessmen have been meeting for discussions in the Global Economic Symposium to provide concrete solutions for the most pressing global governance issues the world will be facing this century. Here is the result of these discussions: a repository of concrete policy proposals.

stresses that had been triggered by Germany's inept handling of what was originally a local issue, did the Frankfurter Allgemeine Zeitung declare that hyperinflation was just around the corner. Those bonds, of course, were mainly Greek of origin, and Greece has come to crystallize anti-European sentiment in Germany as no other. Things will hardly get any better now that Germans will taste austerity at home only shortly after "bailing out the lazy Greek"; or so they think.

Misled by their egomaniac political leadership and unspeakably irresponsible journalism, Germans feel duped by their European partners. Nothing could be further from the truth. Germany has itself to blame for the wreckage caused at home, just as it will have itself to blame once the European wreckage in the name of German national interest is complete.

The real irony in this German tragedy is that German beggar-thy-neighbor policies have effectively forced a fiscal union upon Europe. Or, rather, if not a fiscal union, a general default it will be. The point is that Germany's notorious trade surpluses vis-à-vis its European partners must by necessity have a financial counterpart. In one way or another, German banks financed the country's export successes by lending to today's crisis

countries. They did so as willing borrowers were hard to come by at home when the country - duped by its own political leadership and powerful export lobby - prescribed itself a decade of belt-tightening, flat real wages, and flat consumption growth, that is. Public celebration of repeated wins of the world export championship title made the duped Germans even feel good about it.

Once credit markets stop lending, trade surpluses cannot continue either. A creditor country government may then realize that it might want to step in instead. For if it does not, its intra-area trade surpluses will have to evaporate overnight, while its banks will face corresponding writedowns on debtor country debts. The German taxpayer is not bailing out Greece but German banks, while lending new money to make those export surpluses continue. Repayment of those debts would only be possible if competitiveness positions and intra-regional trade imbalances were reversed at some point. For that to happen, Germans would need to re-learn appreciating wage increases and consumption growth, including long vacations in Greece and Spain, rather than fasting on vain championship titles and mindless austerity.

Not even nominal wages are rising any more though. And

the German government has bravely declared that German competitiveness must not be compromised by adjustment in Europe. This can only imply one of two things. Either Germany will have to continue lending which, by forcing bankruptcy upon its debtors at some point, must turn into fiscal transfers eventually. Or, much of the rest of Europe must embark on restoring competitiveness and resolving intra-regional imbalances through wage-price deflation. Likely outcomes range from stagnation to outright debt deflation. Continent-wide austerity can only raise the burden of debt. And nothing of this is in Germany's national interest for sure.

For a pre-crisis analysis of Euroland's regime flaws see: Bibow, J. and Terzi, A. eds. (2007). Euroland and the World Economy – Global Player or Global Drag?, London, Palgrave-Macmillan.

For a post-crisis analysis see: Bibow, J. (2009). The euro and its guardian of stability: The fiction and reality of the 10th anniversary blast, Levy Economics Institute, Working Paper no. 583."

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