**LIGJËRATA MASTER 2012-2013**

***SYLLABUSI 2012-2013***

Java e parë:

* Hyrje\_Përmbajtja e leksioneve

Java e dytë:

* Kriza ekonomike dhe financiare globale
  + [(Irlanda: Nga lulëzimi, në rrënim;
  + Greqia – Mësimet greke për ekonominë botërore (Greek Lessons for the World Economy);
  + Italia, Spanja, Portugalia;...)]

Java e tretë:

* Rregullsitë ligjore financiare –
  + Avokimi dhe arsimimi i investitorëve dhe formësimi i kapitalit (Investor Education and Advocacy and Capital formation);
  + Objektivat dhe qëllimet e rregullsisë ligjore të tregjeve financiare;
  + 30 parimet e Organizatës Ndërkombëtare të Komisioneve të Letrave me Vlerë (The International Organization of Securities Commissions - IOSCO).

Java e katërt:

* Receta për Recesion (The Recipe for a Recession)
* Ekonomiksi i tregjeve financiare : Politika ekonomike (Economic Policy); Politika monetare (Monetary policy); Politika fiskale (Fiscal policy)
* Tregjet financiare: të rastësishme; ciklike apo të dyja? (Financial Markets: Random, Cyclical Or Both?)

Java e pestë:

* A është Evropa në prag të një krize të likuiditetit ([Is Europe on the Verge of a Liquidity Crisis?](http://moneymorning.com/2010/05/27/europe-liquidity/))
* Shteti, a mund të falimentojë? (Can Countries Go Bankrupt?).
* Leksionet e Greqisë për ekonominë botërore \_ Trilema politike e ekonomisë botërore (Greek Lessons for the World Economy - The political trilemma of the world economy).

Java e gjashtë:

* Gurthemeli i G 20: “Hekurosja” e përçarjeve në mes të vendeve me eksporte të pasura dhe vendeve të ngarkuara me borxhe për konsum” (Ironing out rifts between export-rich countries and debt-laden consumer nations has become the G20's cornerstone).
* Vendet në zhvillim dhe kriza globale ([Developing Countries and the Global Crisis](http://www.project-syndicate.org/commentary/stiglitz111));
* Qëndrueshmëria e Borxhit shtetëror dhe “korniza” për shtim të balancuar (Sustainability of the Sovereign debt and "framework" for balanced growth).

Java e shtatë:

* Ambienti ekonomik dhe monetar në Eurozonë (Economic and Financial Structure of the European Area).

Java e tetë:

* Debat rreth tezave për temë të Masterit

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**Ligjërata shtesë\_2012-2013**

**Eurozone crisis: European Union prepares for the 'great leap forward'**

As EU politicians desperately try to save euro, plans emerge to deepen the union, widening Brussels regulatory powers

* + [http://static.guim.co.uk/static/f76b43f9dcfd761f0ecf7099a127b603b2922118/common/images/icon_reddit.gif](http://www.reddit.com/submit?url=http://www.guardian.co.uk/business/2011/nov/20/eurozone-crisis-european-union-plans&title=)[reddit this](http://www.reddit.com/submit?url=http%3A%2F%2Fwww.guardian.co.uk%2Fbusiness%2F2011%2Fnov%2F20%2Feurozone-crisis-european-union-plans&title=)
* [Julian Coman](http://www.guardian.co.uk/profile/julian-coman)
* [The Observer](http://observer.guardian.co.uk), Sunday 20 November 2011
* As the skies over euroland darken, at least the jokes in Brussels are getting better. At a recent gathering to discuss the crisis that threatens to unravel the euro, one former member of the European parliament observed acidly: "They ought to give this year's Charlemagne prize [for services to European unity] to the bond markets. Who has done more for the cause?"

The black humour was a way of stating a bald truth: in the de facto capital of the [European Union](http://www.guardian.co.uk/world/eu), the ongoing near-death experience of the European single currency is concentrating minds in unprecedented fashion. As governments across southern [Europe](http://www.guardian.co.uk/world/europe-news) buckle under the pressure of paying back their debts at ever-higher rates of interest, and even formerly "respectable" economies such as France and the [Netherlands](http://www.guardian.co.uk/world/netherlands) feel the chill wind of market scrutiny, the custodians of Europe's future have belatedly found their voice.

Last week the normally dour and pragmatic German chancellor, [Angela Merkel](http://www.guardian.co.uk/world/angela-merkel), announced that the EU faces "perhaps the toughest hour since the second world war. If the euro fails, then Europe fails, and we want to prevent and we will prevent this. This is what we are working for, because it is such a huge historic project."

As the stakes rise higher than anyone thought they could, the British are increasingly seen as an irritation and even an irrelevance. On Friday [David Cameron](http://www.guardian.co.uk/politics/davidcameron) rushed between overseas meetings with three key players in this monetary psychodrama: Angela Merkel, leader of the only country with the economic heft to sort the mess out; José Manuel Barroso, the Portuguese president of the European commission which is charged with giving Brussels a plan for salvation; and Herman Van Rompuy, the hitherto invisible president of the European council of ministers, the inter-governmental body that will adopt that plan.

Cameron hoped to extract a promise that the City will not be targeted by a future financial transactions tax and a pledge that countries such as Britain that are outside the eurozone will retain their influence in the turbulent times ahead. The prime minister will have discovered that, as the European dream of integration via monetary union teeters on the brink of catastrophe, the concerns of the semi-detached are at the top of no one's agenda. The UK's decision not to directly assist bailout funds for [Greece](http://www.guardian.co.uk/world/greece) and Portugal went down badly; the subsequent exhortations from Downing Street to sort the euro mess out were greeted with exasperation.

So Downing Street will be no more than a spectator as the eurozone launches itself, in the context of crisis, into a new era. After a tumultuous late autumn, Brussels, Paris and Berlin are agreed that radical reforms are unavoidable. November 2011 will be remembered as the month when [Italy](http://www.guardian.co.uk/world/italy) nearly went under as the bond markets targeted its sovereign debt, when the Greek government came perilously close to exiting the euro altogether, and when France, for five decades in the vanguard of European integration, saw its own economic credibility questioned.

The counter-offensive is to be a risky route march to a form of economic and political union; it is likely to be deep, far-reaching and for many, whether on the political left or right, deeply problematic. Brussels officials will exercise unprecedented powers of intervention over national budgets, tax policies, labour markets. The scrutiny may extend even to a country's schools, universities and courts. Dissent, whether expressed through referendums, elections or the debating chambers of national parliaments, will have only a limited impact. The direction of travel is non-negotiable. For "Europe" – the idea rather than the geographical entity – it is now or never.

In Brussels, the headquarters of the European project for more than five decades, a siege mentality has taken hold. Even in the esoteric upper reaches of the European commission, the language has become passionate rather than technocratic. Until a few weeks ago, the prospect of a speech from Barroso would have sent all but the most ambitious and committed in search of an exit door. "He's normally quite boring," confessed one member of Barroso's political tribe at a euro debate earlier this month. It turned out, however, that Barroso was on belligerent and coruscating form.

The eurozone has been limping along like a man with one leg, he told the audience. A monetary union, a currency, needs an economic and political union to walk properly. The markets were targeting that weakness in the euro's construction. But Barroso also delivered a message that went to the emotional core of the European project. Born in the aftermath of war, ruin and destitution, surely the European project could cope with an army of bond traders, however powerful.

"If this is a mess," he stated with evangelical fervour, "I prefer this mess to totalitarian occupation by the Soviets or a Europe where there was no food. Some of the worst events in human history happened here on this continent. So if you compare then to now, well, we have our current difficulties but in comparison…" The words of defiance were greeted with tumultuous applause.

The European Union has known crises before. There was an enormous row in the 1960s, when Charles De Gaulle's France vetoed British entry, which eventually took place in 1973. In 1999 all 20 commissioners resigned after allegations of corruption in high places, prompted by revelations from a Dutch whistleblower named Paul van Buitenen. In 2005, there were the disastrous results of referendums held in France and the Netherlands, when no-voters scuppered a new EU constitutional treaty, which led to a prolonged bout of navel-gazing in Brussels. But there has never been anything like the current crisis over the euro.

"We are quite worried, to use the British manner of understating things," one senior EU diplomat said. "We need to get through Christmas and keep this ship afloat."

Assuming that can be done, the heavy lifting will only just have begun. One European diplomat paraphrases the EU's Luxembourgish-French founding father, Robert Schuman: "The size of the solution has to be in proportion to the problem we're solving." Twelve months of bailouts, Greek riots, toppled governments and a market meltdown have been alarming enough, but a crisis of sovereign debt could soon be replaced by a crisis of democracy.

Jean-Claude Juncker, the prime minister of [Luxembourg](http://www.guardian.co.uk/world/luxembourg) and current president of the Euro-Group, once joked: "We all know what to do, but we don't know how to get re-elected once we have done it." The quip has gained a frightening new relevance ahead of a "great leap forward" to an economic union that can keep the markets at bay. The hardcore eurozone countries, led by [Germany](http://www.guardian.co.uk/world/germany), have made it clear that the sovereign debt crisis leaves politicians no room for manoeuvre, however far their poll ratings fall.

The constant refrain from Berlin is that the laggards at the back of the eurozone class need to start doing their homework. In Rome, Madrid and elsewhere, the sums relating to national debt, budget deficits and state spending need to start to add up. The days when governments could go their own sweet way, ignoring treaty agreements and responsible only to their electorates, have gone.

Democratic accountability has become a secondary virtue, desirable but expendable. In Italy and Greece, the former Goldman Sachs bankers [Mario Monti](http://www.guardian.co.uk/world/mario-monti) and Lucas Papademos, having been parachuted into highest political office, are set to raise retirement ages and cut state spending without having to canvass for a single vote. George Papandreou's attempt to hold a Greek referendum over a new bail-out package led to his ejection from office before the ballot date was even set. In Rome, Monti has not even bothered to include a single elected politician in a cabinet which must perform the most painful economic transformation in Italian postwar history.

The restlessness is already palpable. Whistles and jeers, from both right and left, greeted Monti as soon as he took his prime ministerial seat. Italians are bemused at the speed and nature of the "takeover", however much they delight in the fall of [Silvio Berlusconi](http://www.guardian.co.uk/world/silvio-berlusconi).

Elsewhere, in the battle to save the euro, democratic proprieties are destined to be similarly ignored, as Brussels declares a state of economic emergency. Mariano Rajoy, the man almost certain to become Spain's next prime minister after today's general election, has already claimed he will be his own man. But that illusion is likely to be dispelled well before the new year.

This Wednesday, Barroso will present proposals for eurozone-wide "stability bonds" – collectivised debt which could be sold at interest rates that the likes of Italy and Spain could afford.

For the markets to bite the bonds would have to be backed up by the might of Germany, the only big eurozone country whose finances are considered beyond reproach. By pooling its debt with its cash-strapped neighbours, Berlin would be vouching for Rome, Madrid and any other government that entered the bond traders' sights. But the price for such solidarity will be very high.

"If eurozone debt is going to be 'mutualised'," said Guy Verhofstadt, the former prime minister of Belgium and now leader of the liberal group in the European parliament, "then there's also going to have to be a debt reduction scheme. All countries will have to eventually get back to the 60% of GDP figure. And someone or some independent institution is going to have to police that. I was in the Council of Ministers for nine years. I know from experience that prime ministers don't police each other, don't point the finger at each other for bending the rules."

The new "police force", Verhofstadt believes, will be the European commission itself. Following the embarrassments of the French and Dutch referendums in 2005, the EU's executive arm, which functions as a kind of ministry for further integration, entered a quiet period. But led by the newly impassioned Barroso, it is determined not to let this crisis go to waste.

The buzzwords in the corridors of the commission's Berlaymont building in Brussels are "discipline, surveillance and enforcement". Countries that fail to follow the austerity writ from Berlin and Brussels are liable to be subject to harsh sanctions – perhaps fines of 0.2%-0.5% of GDP, and the withdrawal of wealth transfers from the richer regions of the EU to the poorer ones.

Fines will be complemented by intrusive "supervision". Last week Barroso told the European parliament in Strasbourg that those countries struggling to lower excessive levels of debt will also be subject to intervention from Brussels in "domains previously restricted to national governments or parliaments".

Eurozone governments pondering the meaning of that ominous turn of phrase would do well to peruse the letter sent to Rome by the Finnish economic and monetary commissioner, Olli Rehn, in the last days of Silvio Berlusconi's government. Now notorious, after being published in the Italian media, the letter contained 39 questions about Italy's economic plans. Rehn's curiosity ranged far and wide.

"Is moving the pensionable age back to 67 in 2026 sufficient?" he asked. "How will the employment of the young and of women be promoted? … How will schools with unsatisfactory results be re-structured? … How will competition between universities be enhanced? … What measures will be taken to make the civil justice system work better?" By the time the questions arrived, a team of Brussels monitors was already ensconced in Rome, burrowing into government accounts and sifting through sheaves of statistics.

No wonder Rajoy, Spain's prime minister-elect, said last week: "I believe in democracy and the right for peoples to choose their own representatives." Is the Rehn-style approach to getting the eurozone's finances in order, backed up by the threat of fines and other sanctions, compatible with democratic government? In besieged Brussels, there is little sympathy for this kind of question.

"What's the alternative?" asks one senior EU official. "We have seen democracies outstripped by the markets, which have forced decisions on elected governments. So that democratic freedom has been curtailed. How do you respond? Do you let that continue, or do you move towards stronger economic governance? And which is more legitimate, the rule of the markets or economic governance by representative institutions in which governments have a say?" He adds that he expects there to be an elected European president "within 10 years", as Brussels strives to introduce new forms of accountability within the EU institutions.

The Schuman-quoting diplomat is blunter still: the emerging global economy, dominated by China, Asia and the United States, offers no future to a quixotic monetary union hampered by the competing interests of 17 member states. As the markets have demonstrated, Europe must change: "There has to be a balance between legitimacy and effectiveness. There is an issue but if this crisis deepens people will see that the world is changing. Nations cannot act and stand alone when tectonic plates are shifting."

Verhofstadt calls for an extension of democracy in Brussels, specifically more powers for the European Parliament. That stance has also been given surprisingly strong backing by Merkel, who suggested last week an enhanced role for the parliament in providing a democratic voice for Europe's peoples. "If there's a democratic problem then let's try to resolve it," said Verhofstadt. "Let's involve the European parliament more along with national parliaments. But he too is adamant "we cannot go forward with 17 different public opinions [in the eurozone]".

Brussels is up for a fight – both with the markets and with recalcitrant national governments. But in the end, all will depend on Germany. A crisis that took the EU unawares has laid bare the overwhelming hegemony of its largest, most important and most successful economy. Even the French, who for decades ran the EU as equal partners with the Germans, are acquiring something of an inferiority complex. As bond yields on French sovereign debt began to rise alarmingly, the German magazine *Der Spiegel* ran a gently condescending feature on the French economy, entitled "*Bonjour Tristesse*" (Hello, sadness). It observed that France had been "living beyond its means for 37 years [since] the last balanced budget in 1974". On French TV, Opel car adverts are now broadcast with the voiceover in German, now a signifier of efficiency even in Paris. "No need to be ashamed of speaking German abroad any more," chortled the *Süddeutsche Zeitung*.

But the shadows of the past are still there, particularly when it comes to money matters. After yet another EU summit last month, one German tabloid headline read: "Hands off! Failed states are still going to get our gold!" The economic collapse of the 1920s and 30s, hyperinflation and its aftermath, are still influencing German calculations in 2011.

Without a new disciplinary apparatus, designed to keep the "reckless and feckless" on the straight and narrow, and policed by the European commission, there is not a chance that Berlin will compromise its own finances by pooling its debt with beleaguered neighbours. It would far prefer to strike out in a new elite monetary grouping, probably including the Netherlands, Austria and France. And Merkel will not countenance a massive and inflationary intervention by the [European Central Bank](http://www.guardian.co.uk/business/european-central-bank).

So after all the half-measures, partial solutions and months of "kicking the can down the road", the eurobond route, and all that goes with it, may be the only way left to save the euro. According to Verhofstadt, "Either we do this or it's the end of the single currency."

Will the eurozone's population ultimately be reconciled to emasculated national parliaments enacting austerity programmes that may take their countries back into recession? Barroso has taken to quoting the wisdom of another of the founding fathers of the EU, Jean Monnet: "People are ready to change when they understand there is no alternative."

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**Why E.U. collapse is more likely than the fall of the euro**

By Niall Ferguson, Published: November 19

European politics has become a giant Jenga game. Since June 2010 governments have fallen in the Netherlands, Slovakia, Belgium, Ireland, Finland, Portugal, Slovenia, Greece and Italy.

The question is not: Who will be next? That’s easy. (Spain’s Socialist government will be pulverized in this weekend’s elections.) The real question is: When will the Jenga tower topple?

Many people assume that the tipping point will come when one country — most likely Greece — leaves or is ejected from Europe’s monetary union. But the scenario that worries Eurocrats is different. They fear that a country could leave the European Union itself.

This is by no means an irrational anxiety. Under E.U. law, it would be much easier for Britain to leave the European Union than for Greece to leave the euro zone.

Thus the process of European integration has reached a richly ironic point: The breakdown of the European Union is now more likely than the collapse of the single currency that was supposed to bind it together.

This is not surprising. In March 2000, [Larry Kotlikoff and I wrote in Foreign Affairs](http://www.foreignaffairs.com/articles/55855/niall-ferguson-and-laurence-j-kotlikoff/the-degeneration-of-emu), “History offers few examples of successful adjustments on the scale necessary in certain European countries today. What it does offer are several examples of monetary unions disintegrating when fiscal strains became incompatible with the unpleasant arithmetic of a single currency.” The euro, we predicted, “could degenerate — not overnight, but within the next decade.”

Our timing was not bad. The degeneration of the single currency began in 2010, though the crisis has certainly intensified in recent months.

We specified “degeneration” to highlight the generational imbalances arising from Europe’s combination of aging populations and over-generous welfare systems. Even if there had been no financial crisis emanating from the U.S. subprime mortgage crisis that began in 2007, the European monetary system would still have degenerated as public debts soared.

But we also struggled to see how, once assembled, the euro zone could be dismantled. The costs of exit would be prohibitive for a small peripheral country such as Greece, which would overnight lose access to any source of external credit. And a Greek departure would raise the probability of others leaving, causing contagion throughout Southern Europe.

Finally, if all the weaker brethren were to leave the monetary union except Germany, Austria, the Netherlands and Finland, the strengthening of the euro would cause significant pain to the exporters of those countries. In short, almost nobody would gain from a breakup of the euro zone.

This is why I am not among the growing throng of pundits predicting the degeneration of the euro — a number of whom argued with equal self-confidence a dozen years ago that the euro would be a great success.

Anyone who closely followed events of the 1990s had a clear idea of what a monetary union with the Federal Republic of Germany would entail: short-term spending power but long-term unemployment mitigated by handouts.

Some doubt that German taxpayers will be as ready to pay doles to Lesbos and Livorno as they were to pay doles to Leipzig. But if the alternative is a breakup of the euro zone, they will do it. Chancellor Angela Merkel made that clear Monday when [she urged her Christian Democrats](http://www.washingtonpost.com/world/europe/german-chancellor-merkel-says-more-europe-must-be-answer-to-overcome-the-blocs-debt-crisis/2011/11/14/gIQAHIBUKN_story.html) to accept “not less Europe but more. . . . That means creating a Europe that ensures that the euro has a future. Our responsibility no longer stops at our countries’ borders.”

Those betting on a euro breakup believe that the inflation-phobic Germans will never permit large-scale bond purchases by the European Central Bank — the policy known in the United States as quantitative easing. But this needs to happen to bail out not only the Mediterranean governments but also insolvent banks — including German banks — throughout the euro zone.

In short, the European monetary union survives, albeit with a gloomy future of higher unemployment for southern Europe and higher taxes for the North.

But the fate of the European Union itself will be very different. The creation of the single currency — obeying the law of unintended consequences — set in motion a powerful process of European disintegration. The fact that not all 27 E.U. members joined the monetary union was its first manifestation. Today we have a two-tier system, with 17 member-states sharing the euro, but 10 other states — notably Britain — retaining their own currencies.

The result is that key decisions today — particularly those about the scale of transfers from core nations to the periphery — are being made by the 17, not the 27. But the 10 non-euro members may still find themselves on the hook to help fund whatever combination of bailout, haircut and bank recapitalization the 17 decide on. They may also face more stringent financial regulation or a financial transaction tax, ideas that are much more popular in Berlin than in London.

This is an unsustainable imbalance. If the euro countries are intent on going down the road to federalism — and they don’t have a better alternative — the non-euro countries will face a stark choice: giving up monetary sovereignty or accepting the role of second-class citizens within the E.U.

Under these circumstances, the logic of continued British membership in the E.U. looks less and less persuasive. British public opinion has long been deeply Euro-skeptic. If it came to a referendum, as many Conservatives would like, Britons might well vote to leave the E.U. And under Article 50 of the Treaty of European Union, withdrawal would simply need to be approved by a qualified majority of E.U. members.

In the great game of European Jenga, most people expect the French government of Nicolas Sarkozy will fall next year. But the thing that could cause the European Union to topple, or at least shrink in size, would be the outright withdrawal of Britain. And that has started to look quite possible.

Niall Ferguson, a professor of history at Harvard University, is most recently the author of [“Civilization: The West and the Rest.”](http://www.amazon.com/gp/offer-listing/1594203059/ref=as_li_qf_sp_asin_tl?ie=UTF8&tag=slatmaga-20&linkCode=am2&camp=217145&creative=399373&creativeASIN=1594203059)

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***The Anatomy of Global Economic Uncertainty***

[***Mohamed A. El-Erian***](http://www.project-syndicate.org/contributor/1815)

***18-11-2011***

NEWPORT BEACH – The sense of uncertainty prevailing in the West is palpable, and rightly so. People are worried about their futures, with a record number now fearing that their children may end up worse off than them. Unfortunately, things will become even more unsettling in the months ahead.

The United States is having difficulties returning its economy to the path of high growth and vigorous job creation. Thousands of people have taken to the streets of US cities, and thousands of others in Europe, to demand a fairer system. In the eurozone, financial crises have forced out two governments, replacing elected representative with appointed technocrats charged with restoring order. Concern about the institutional integrity of the eurozone – key to the architecture of modern Europe – continues to mount.

This uncertainty extends beyond countries and regions. Those looking around the next corner also worry about the stability of an international economic order in which the difficulties faced by the system’s Western core are gradually eroding global public goods.

It is no coincidence that all of this is happening simultaneously. Each development, and certainly their occurrence in tandem, points to the historic paradigm changes shaping today’s global economy – and to the anxiety that comes with the loss of once-dependable anchors, be they economic and financial or social and political.

Restoring these anchors will take time. There is no game plan as of now, and historic precedents are only partly illuminating. Yet two things seem clear: different countries are opting, either by choice or necessity, for different outcomes; and the global system as a whole faces challenges in reconciling them.

Some changes will be evolutionary, taking many years to manifest themselves; others will be sudden and more disruptive. Yet, as complex as all of this sounds – and, by definition, paradigm changes are complicated affairs that, fortunately, seldom occur – a simple analytical framework may help shed light on what to look for, what to expect and where, and how best to adapt.

The framework relies on an often-used analytical shortcut: identifying a limited set of explanatory variables in what statisticians call “a reduced-form equation.” The objective is not to account for everything, but rather to pinpoint a small number of variables than can explain key factors, albeit neither perfectly nor fully.

Using this approach, it is possible to argue that the future of many Western economies, and that of the global economy, will be shaped by their ability to navigate four inter-related financial, economic, social, and political dynamics.

The first relates to balance sheets. Many Western economies must deal with the nasty legacy of years of excessive borrowing and leveraging; those, like Germany, that do not have this problem are linked to neighbors that do. Faced with this reality, different countries will opt for different de-leveraging options. Indeed, differentiation is already evident.

Some, like Greece, face such a parlous situation that it is difficult to imagine any outcome other than a traumatic default and further economic turmoil; and Greece is unlikely to be the only Western economy forced to restructure its debt. Others, like the United Kingdom, have moved quickly to take firmer control of their destiny, though their austerity drives will inevitably involve considerable sacrifices.

A third group, led by the US, has not yet made an explicit de-leveraging choice. Having more time, they are using the less visible, and much more gradual, path of “financial repression,” under which interest rates are forced down so that creditors, including those on modest fixed incomes, subsidize debtors.

De-leveraging is closely linked to the second variable – namely, economic growth. Simply put, the stronger a country’s ability to generate additional national income, the greater its ability to meet debt obligations while maintaining and enhancing citizens’ standards of living.

Many countries, including Italy and Spain, must overcome structural barriers to competitiveness, growth, and job creation through multi-year reforms of labor markets, pensions, housing, and economic governance. Some, like the US, can combine structural reforms with short-term demand stimulus. A few, led by Germany, are reaping the benefits of years of steadfast (and underappreciated) reforms.

But growth, while necessary, is insufficient by itself, given today’s high unemployment and the extent to which income and wealth inequalities have increased. Hence the third dynamic: the West is being challenged to deliver not just growth, but “inclusive growth,” which, most critically, involves greater “social justice.”

Indeed, there is a deep sense that capitalism in the West has become unfair. Certain players, led by big banks, extracted huge profits during the boom, and avoided the deep losses that they deserved during the bust. Citizens no longer accept the argument that this unfortunate outcome reflects the banks’ special economic role. And why should they, given that record bailouts have not revived growth and employment?

Calls for a fairer system will not go away. If anything, they will spread and grow louder. The West has no choice but to strike a better balance – between capital and labor, between current and future generations, and between the financial sector and the real economy.

This leads to the final variable, the role of politicians and policymakers. It has become fashionable in both America and Europe to point to a debilitating “lack of leadership,” which underscores the extent to which an inherently complex paradigm change is straining traditional mindsets, processes, and governance systems.

Unlike emerging economies, Western countries are not well equipped to deal with structural and secular changes – and understandably so. After all, their histories – and certainly during what was mislabeled as the “Great Moderation” between 1980 and 2008– have been predominantly cyclical. The longer they fail to adjust, the greater the risks.

Those on the receiving end of these four dynamics – the vast majority of us – need not be paralyzed by uncertainty and anxiety. Instead, we can use this simple framework to monitor developments, learn from them, and adapt. Yes, there will still be volatility, unusual strains, and historically odd outcomes. But, remember, a global paradigm shift implies a significant change in opportunities, and not just risks.

*Mohamed A. El-Erian is CEO and co-CIO of PIMCO, and author of* When Markets Collide.

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**It's not just our leaders who are in a crisis. Democracy itself is failing**

[**Peter Beaumont**](http://www.guardian.co.uk/profile/peterbeaumont)

[**The Observer**](http://observer.guardian.co.uk)**, Sunday 20 November 2011**

Are the following intimations of a global crisis in the legitimacy of western democracy? [Ireland's confidential budget plan](http://www.thejournal.ie/budget-leaks-e3-5bn-budget-for-2013-still-wont-meet-troika-targets-283243-Nov2011/), unseen by the Irish electorate, is leaked by European finance officials to the German parliament where the proposals are examined by the German finance committee.

In Italy, [Mario Monti](http://www.guardian.co.uk/world/video/2011/nov/17/mario-monti-first-speech-video), the country's unelected new prime minister and a former international adviser to Goldman Sachs, stands in the Giustiniani Palace as head of a cabinet of similarly unelected technocrats. Imposed in place of the corrupt, useless and seedy Silvio Berlusconi to satisfy the "markets", Monti promises what we are told the markets want, and that is "sacrifices".

In Greece, both left and right of the country unite against their own technocrat, the former head of Greece's Central Bank, [Lucas Papademos](http://www.guardian.co.uk/world/2011/nov/11/lucas-papademos-greece-prime-minister?newsfeed=true), brought in, too, at the behest of the markets. And in Berlin on Friday, David Cameron, the leader of the Conservative party, which could not manage to secure a mandate to govern the UK on its own, sits down with a German chancellor, Angela Merkel, whose countrymen do not trust her to handle the [eurozone crisis](http://www.guardian.co.uk/business/debt-crisis).

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***Europe’s Darkness at Noon***

[***Barry Eichengreen***](http://www.project-syndicate.org/contributor/511)

***2011-11-08***

BERKELEY – It may be hard to imagine that Europe’s crisis could worsen, but it just has. European Union leaders failed at their summit two weeks ago to produce anything of substance. China and Brazil are clearly reluctant to come to the rescue by providing a large injection of foreign cash. And the recent G-20 summit in Cannes produced no agreement on steps that might have helped to resolve the crisis.

Now there is the collapse of the Greek government. The trigger may have been outgoing Prime Minister George Papandreou’s ill-advised decision to call for a referendum on the EU’s rescue package (which implies further severe austerity measures); but the fundamental problem is that a brutal recession made the government’s demise all but inevitable.

The formation of a new national unity government does not mean that the Greek problem is behind Europe or the world. On the contrary, the new government’s position will be no more tenable than that of its predecessor. Until there is hope, however remote, that Greece can begin to grow again, the problem will not go away.

Even worse for financial stability, Papandreou’s announcement of a referendum provoked German Chancellor Angela Merkel and French President Nicolas Sarkozy to break an important taboo. Previously, European leaders had averred that the euro was forever, repeating at every turn that they would do whatever it took to hold the monetary union together. Last week, in a dangerous departure, Merkel and Sarkozy bluntly told the Greeks that it was up to them to decide whether they wanted to keep the euro.

Their statements were designed to beat Greek politicians into submission, and may have succeeded, at least for now. But they also opened the door to destabilizing speculation. The temptation to bet against continued Greek participation in the euro is now greater than ever. As investors place their bets, the balance sheets of Greek banks and the Greek government will deteriorate further, which could cause bearish expectations to become self-fulfilling.

The greater danger is that where Greece leads, Portugal and Italy will be forced to follow. Anyone who doubts this need only think back to 1992, when the European Monetary System fell apart.

In September of that year, Bundesbank President Helmut Schlesinger made some reckless comments about how devaluations within Europe’s system of supposed stable exchange rates “cannot be ruled out.” Schlesinger’s unguarded remarks signaled that the Bundesbank was not willing to do whatever it took to preserve the system – a signal that encouraged investors to place massive bets against the British pound and Italian lira. The result was the collapse of Europe’s exchange-rate mechanism.

If Merkel and Sarkozy are serious about preserving the euro, they will have to repair the damage caused by their reckless remarks. They should acknowledge that the only entity with the capacity to stabilize the situation is the European Central Bank. And they must give the ECB the political cover that it needs to do what is required to preserve the system.

Specifically, the ECB must do much more to support economic growth. Its decision to cut rates by 25 basis points at the first policy meeting under its new president, Mario Draghi, is the one ray of light in an otherwise darkening sky. But 25 basis points are a drop in the bucket. With Europe headed for recession, the danger of rising inflation is nil. Still, given German sensitivities, Merkel should use her bully pulpit to reassure her public.

More controversially, the ECB needs to increase its purchases of Italian bonds. Unless yields on those bonds fall to German levels, there is no way that Italy’s debt arithmetic can be made to add up. But Draghi has indicated that he is reluctant to see the ECB become a lender to governments. Reassuring the markets by adopting structural reforms, he has observed, is properly the responsibility of those governments, not of the central bank.

But structural reforms cannot be accomplished overnight. Italy needs time to put its pro-growth reforms in place. Not providing that time would sound the death knell for the euro.

Here’s where the political cover comes into play. Merkel and Sarkozy need to make the case that if the euro is to become a normal currency, Europe needs a normal central bank – one that does not merely target inflation like an automaton, but that also understands its responsibilities as a lender of last resort.

Meanwhile, Italy, now under the watchful eye of the International Monetary Fund, needs to move ahead with those pro-growth reforms in order to reassure the ECB’s shareholders that the central bank’s bond purchases are not money losers.

If it does, maybe – just maybe – there will be reason to hope that the European project’s darkest hour is just before the dawn.

*Barry Eichengreen is Professor of Economics and Political Science at the University of California, Berkeley. His most recent book is* Exorbitant Privilege: The Rise and Fall of the Dollar.

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***Down with the Eurozone***

[***Nouriel Roubini***](http://www.project-syndicate.org/contributor/1095)

***11-11-2011***

NEW YORK – The eurozone crisis seems to be reaching its climax, with Greece on the verge of default and an inglorious exit from the monetary union, and now Italy on the verge of losing market access. But the eurozone's problems are much deeper. They are structural, and they severely affect at least four other economies: Ireland, Portugal, Cyprus, and Spain.

For the last decade, the PIIGS (Portugal, Ireland, Italy, Greece, and Spain) were the eurozone's consumers of first and last resort, spending more than their income and running ever-larger current-account deficits. Meanwhile, the eurozone core (Germany, the Netherlands, Austria, and France) comprised the producers of first and last resort, spending below their incomes and running ever-larger current-account surpluses.

These external imbalances were also driven by the euro’s strength since 2002, and by the divergence in real exchange rates and competitiveness within the eurozone. Unit labor costs fell in Germany and other parts of the core (as wage growth lagged that of productivity), leading to a real depreciation and rising current-account surpluses, while the reverse occurred in the PIIGS (and Cyprus), leading to real appreciation and widening current-account deficits. In Ireland and Spain, private savings collapsed, and a housing bubble fueled excessive consumption, while in Greece, Portugal, Cyprus, and Italy, it was excessive fiscal deficits that exacerbated external imbalances.

The resulting build-up of private and public debt in over-spending countries became unmanageable when housing bubbles burst (Ireland and Spain) and current-account deficits, fiscal gaps, or both became unsustainable throughout the eurozone's periphery. Moreover, the peripheral countries’ large current-account deficits, fueled as they were by excessive consumption, were accompanied by economic stagnation and loss of competitiveness.

So, now what?

Symmetrical reflation is the best option for restoring growth and competitiveness on the eurozone's periphery while undertaking necessary austerity measures and structural reforms. This implies significant easing of monetary policy by the European Central Bank; provision of unlimited lender-of-last-resort support to illiquid but potentially solvent economies; a sharp depreciation of the euro, which would turn current-account deficits into surpluses; and fiscal stimulus in the core if the periphery is forced into austerity.

Unfortunately, Germany and the ECB oppose this option, owing to the prospect of a temporary dose of modestly higher inflation in the core relative to the periphery.

The bitter medicine that Germany and the ECB want to impose on the periphery – the second option – is recessionary deflation: fiscal austerity, structural reforms to boost productivity growth and reduce unit labor costs, and real depreciation via price adjustment, as opposed to nominal exchange-rate adjustment.

The problems with this option are many. Fiscal austerity, while necessary, means a deeper recession in the short term. Even structural reform reduces output in the short run, because it requires firing workers, shutting down money-losing firms, and gradually reallocating labor and capital to emerging new industries. So, to prevent a spiral of ever-deepening recession, the periphery needs real depreciation to improve its external deficit. But even if prices and wages were to fall by 30% over the next few years (which would most likely be socially and politically unsustainable), the real value of debt would increase sharply, worsening the insolvency of governments and private debtors.

In short, the eurozone's periphery is now subject to the paradox of thrift: increasing savings too much, too fast leads to renewed recession and makes debts even more unsustainable. And that paradox is now affecting even the core.

If the peripheral countries remain mired in a deflationary trap of high debt, falling output, weak competitiveness, and structural external deficits, eventually they will be tempted by a third option: default and exit from the eurozone. This would enable them to revive economic growth and competitiveness through a depreciation of new national currencies.

Of course, such a disorderly eurozone break-up would be as severe a shock as the collapse of Lehman Brothers in 2008, if not worse. Avoiding it would compel the eurozone's core economies to embrace the fourth and final option: bribing the periphery to remain in a low-growth uncompetitive state. This would require accepting massive losses on public and private debt, as well as enormous transfer payments that boost the periphery’s income while its output stagnates.

Italy has done something similar for decades, with its northern regions subsidizing the poorer Mezzogiorno. But such permanent fiscal transfers are politically impossible in the eurozone, where Germans are Germans and Greeks are Greeks.

That also means that Germany and the ECB have less power than they seem to believe. Unless they abandon asymmetric adjustment (recessionary deflation), which concentrates all of the pain in the periphery, in favor of a more symmetrical approach (austerity and structural reforms on the periphery, combined with eurozone-wide reflation), the monetary union's slow-developing train wreck will accelerate as peripheral countries default and exit.

The recent chaos in Greece and Italy may be the first step in this process. Clearly, the eurozone’s muddle-through approach no longer works. Unless the eurozone moves toward greater economic, fiscal, and political integration (on a path consistent with short-term restoration of growth, competitiveness, and debt sustainability, which are needed to resolve unsustainable debt and reduce chronic fiscal and external deficits), recessionary deflation will certainly lead to a disorderly break-up.

With Italy too big to fail, too big to save, and now at the point of no return, the endgame for the eurozone has begun. Sequential, coercive restructurings of debt will come first, and then exits from the monetary union that will eventually lead to the eurozone’s disintegration.

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***The German Hour***

[***Jean Pisani-Ferry***](http://www.project-syndicate.org/contributor/414)

***28-11-2011***

BRUSSELS – A series of developments over the last few weeks have set in motion a downward spiral for the eurozone. Unless officials – especially German officials – act fast, the verdict of financial markets is bound to be ruthless.

First, the eurozone has failed to turn the tide. Mario Draghi, President of the European Central Bank, was right to note that, despite numerous ministerial meetings and three summits, implementation of the decision to increase significantly the firepower of the European Financial Stability Facility (EFSF) is still lacking. There are now growing doubts about the effectiveness of the EFSF.

Second, and partly as a consequence, virtually all eurozone countries’ debt is trading at a discount relative to German Bunds. While it was necessary to price risk more accurately, it is difficult to believe that the Netherlands, with a debt ratio nearly 20 percentage points lower than Germany’s, deserves to be assessed as a *higher* default risk. But now even the mighty Bund has started to suffer from heightened market anxiety.

Third, financial-market participants and, increasingly, real businesses are pricing in a possible breakup of the eurozone, if not the end of the euro itself. It is still difficult to think the unthinkable, let alone work out the details of it, but any rational player must now consider the possibility. If expectations of disaster build, and a growing number of players start positioning themselves to protect themselves, the consequences could become overwhelming. Not only the eurozone would suffer.

Fourth, Germany has become the eurozone’s undisputed leader. Although France continues to play its role as the other half of the European Union’s leading couple, it has lost influence and the ability to take the initiative. A weaker French economy, shakier public finances, and the coming presidential election are all combining to alter the balance with Germany. Political audacity can carry France only so far.

In this context, Germany again finds itself in a situation akin to that of the late 1980’s, when the Bundesbank was setting monetary policy for the rest of the continent. At that time, German Chancellor Helmut Kohl wisely concluded that German economic dominance of Europe was not conducive to a stable equilibrium, and that a better plan for the future was to build on Germany’s weight and influence to create a permanent common monetary order. Kohl’s insight gave birth to the euro.

Today, once again, it is in Germany’s best interest to ensure lasting stability in Europe. With foreign assets worth €6 trillion ($7.9 trillion), most of which consist of claims on its eurozone partners, Germany would lose out massively if the eurozone fragments. Claims on entities within partner countries would be redenominated in weaker currencies – or the borrowers would default on them. Obviously, German exporters would be hurt by substantial currency appreciation.

German Chancellor Angela Merkel has sensibly decided to take the lead on reforming the eurozone. But many Germans feel deceived by some irresponsible eurozone partners, giving rise to the temptation to use Germany’s current strength to toughen sanctions and coerce weaker countries into adopting constitutional changes, especially concerning fiscal policy.

This is a risky attitude. To be sure, Germany has far more leverage today than it has had at any point in the last 20 years. But attempting to extract unilateral concessions from partners is a recipe for disappointment. It is one thing is to be sanctioned for breaching the rules, as with the Stability and Growth Pact; it is quite another thing to permit elected national governments and parliaments to be overruled, and national budgets censored, by an unelected higher authority.

The EU’s members are unlikely to agree to major reform unless Germany offers something in return. Absent a more balanced deal, what is likely to emerge from negotiations is simply another layer of largely ineffectual and ultimately divisive sanctions.

The natural *quid pro quo* for *ex ante* budgetary control is solidarity through the creation of Eurobonds. Joint and several liability for public bonds is imaginable only if countries offering their guarantee – and thus potential access to their taxpayers – can exercise veto power and prevent a partner country from issuing more debt. Thus, legally binding *ex ante* control is a necessary condition for Eurobonds. Conversely, surrendering budgetary sovereignty to eurozone partners is acceptable only if it accompanies their guarantee that they will come to the rescue in case of accident.

Germany should be bold and use its leverage to offer a new contract to its eurozone partners: mutual guarantee of part of their public debt in exchange for strict debt limits and a new legal order in which a eurozone authority can veto an enacted budget even before it is implemented. Only such boldness will deliver the certainty that markets need – and it is Germany’s responsibility to be bold.

Jean Pisani-Ferry is Director of Bruegel, an international economics think tank, Professor of Economics at Université Paris-Dauphine, and a member of the French Prime Minister’s Council of Economic Analysis.

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***Germany against greater ECB role***

***By Greg Keller; Associated Press***

***Thursday, November 24, 2011***

Bottom of Form

STRASBOURG, France | Germany deflected calls for the European Central Bank to play a bigger role in solving Europe's debt crisis but won the backing of France and Italy to unite the troubled 17-nation eurozone more closely.

Europe's biggest economy and the main financier of the eurozone's three bailouts has argued against allowing the ECB to use its firepower to ease a debt crisis that's shown alarming signs recently of spreading to big economies, like Italy.

Instead of using the ECB's cash-printing power, the eurozone's richest countries decided to use political tools to dig their way out of the crisis: Germany and France agreed Thursday to push for changes to EU treaties to bring the eurozone's economic policies more in line with each other.

"In the treaty changes, we are dealing with the question of a fiscal union, a deeper political cooperation ... there will be proposals on this, but they have nothing to do with the ECB," German Chancellor Angela Merkel said Thursday in Strasbourg, France, after meeting with French President Nicolas Sarkozy and Italy's new prime minister, Mario Monti.

Many think the ECB is the only institution capable of calming frayed market nerves and Mrs. Merkel's continued dismissal of a greater ECB role knocked market sentiment and stocks all around Europe fell again after a morning rebound.

Potentially, the ECB has unlimited financial firepower through its ability to print money. However, Germany finds the idea of monetizing debts unappealing, warning that it lets the more profligate countries off the hook for their bad practices. In addition, it conjures up bad memories of hyperinflation in Germany in the 1920s.

The ECB itself is reluctant to take on a bigger firefighting role. Its president, Mario Draghi, said earlier this month it was "pointless" for governments to depend on ECB bond buys to keep their borrowing costs down for any length of time.

ECB executive council member Jose Manuel Gonzalez-Paramo said Thursday that "euro area governments cannot expect the ECB to finance public deficits."

The ECB is "committed to its mandate to preserve price stability over the medium term ... it is not the fiscal lender of last resort to sovereigns," Mr. Gonzalez-Paramo said in a speech in Oxford, England, according to prepared remarks released by the bank.

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***Eurozone is on the way to fiscal union***

***Jean Pisani-Ferry***

***28 November 2011***

PermalinkEurope’s leaders may still harbour secret hopes that the European Central Bank will come to their rescue, but at least they seem to have understood that the surest way to make that happen is to deliver on what they have responsibility for, starting with budgets. [Fiscal union](http://www.ft.com/cms/s/0/05f16cfa-16b7-11e1-a45d-00144feabdc0.html) is now officially on the European agenda.

For some, this is all about strengthening sanctions for budgetary slippages through more automatic decision procedures and granting the power to veto national budgets to a European body. Angela Merkel, the German chancellor has spoken along these lines recently and [Mark Rutte](http://www.ft.com/cms/s/0/7740b89e-16bb-11e1-a45d-00144feabdc0.html), the Dutch prime minister, is on a similar page. However, this plan alone is not likely to deliver much more than another layer of half-effective measures.

The principle underpinning budgetary surveillance is that each country is solely responsible for its own debt, but that it can be sanctioned ex post for misbehaviour. Alternatively, countries participating in the eurozone could have joint responsibility over at least part of their public debt, but they would also agree to give their partners the right to veto their budgets before they are implemented. To be clear, this would imply that eurozone members agree to provide a guarantee to the holders of, say, Italian debt and have the right to prevent the issuance of Italian debt.

Both principles are logically consistent. The choice today is whether to move towards adopting the latter instead of the former. But the idea of establishing an ex ante veto procedure without a quid pro quo is a dream. The unilateral surrender of budgetary sovereignty – a fundamental parliamentary right – is not something democratic countries will easily agree to if they do not get anything in exchange.

This is why, if serious, the debate on fiscal union is bound to involve discussion about the [issuance of eurozone bonds](http://video.ft.com/v/1290921096001/Eurozone-bonds-no-quick-fix). However, these come in many different shapes and colours. The European Commission presented a number of proposals earlier this week. The German Council of Economic Experts also suggested its own version.

Ideally, the scheme for issuing eurozone bonds would ensure that in order to be attractive to overseas investors they are at least as safe as and more liquid than existing high-quality government bonds. It should also involve incentives to fiscal discipline so that participating governments contribute to keeping the new bonds on a sound footing. In view of these criteria, the incentives-focused [‘blue bond’ proposal by Jacques Delpla and Jakob von Weizsäcker](http://www.bruegel.org/publications/publication-detail/publication/403-the-blue-bond-proposal/) remains the best on offer.

However, recent developments at the [German constitutional court](http://www.ft.com/cms/s/0/ee7fa172-0158-11e1-ae24-00144feabdc0.html) complicate matters. The court has ruled that Germany cannot enter into unlimited, open-ended commitments vis-à-vis partners.

The German experts’ proposal addresses these concerns by proposing a temporary guarantee scheme covering current debt in excess of 60 per cent of gross domestic product. They envisage the creation of a temporary redemption fund that would benefit from joint and several liability and through which participating countries could issue debt in the next few years until they have reached their quota (namely, their current debt less 60 per cent). This debt would be paid off and gradually extinguished over time. To this end, each participating country would be required to earmark specific tax revenues.

There are shortcomings in this proposal. One may wonder what would be the attractiveness of temporary eurozone bonds. Countries with high debt, such as Italy, would benefit from it more than those with low debt, such as Spain, though the scheme could be tweaked to correct this imbalance. It would also lack the permanent incentive property of the blue bond scheme. But it has two advantages. First, the temporary possibility to issue new debt under joint and several liability would give breathing space to countries in trouble, leaving them time to adjust. Second, it would be an instrument to rebuild trust. For these two reasons, it deserves serious consideration.

*The writer is director of* [*Bruegel*](http://www.bruegel.org/)*, a European think-tank focusing on global economic policymaking*

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***A Summit to the Death***

***Kevin O’Rourke***

***09-12-2011***

*…Kevin O’Rourke is Chichele Professor of Economic History at the University of Oxford, and a fellow of All Souls College.*

**One lesson** that the world has learned since the financial crisis of 2008 **is that a contractionary fiscal policy means what it says: contraction**. Since 2010, **a Europe-wide experiment has conclusively falsified the idea that fiscal contractions are expansionary**. August 2011 saw the largest monthly decrease in eurozone industrial production since September 2009, German exports fell sharply in October, and now-casting.com is predicting declines in eurozone GDP for late 2011 and early 2012.

**A second**, related lesson is that it is difficult to cut nominal wages, and that they are certainly not flexible enough to eliminate unemployment. That is true even in a country as flexible, small, and open as Ireland, where unemployment increased last month to 14.5%, emigration notwithstanding, and where tax revenues in November ran 1.6% below target as a result. If the nineteenth-century “internal devaluation” strategy to promote growth by cutting domestic wages and prices is proving so difficult in Ireland, how does the EU expect it to work across the entire eurozone periphery?

What is needed to save the eurozone in the medium term is a central bank mandated to target more than just inflation – for example, unemployment, financial stability, and the survival of the single currency. A common framework for regulating the financial system is also required, as is a common banking-resolution framework that serves the interests of taxpayers and government bondholders, rather than those of banks and their creditors. This will require a minimal fiscal union; a full-scale fiscal union would be better still. Yet none of this was on the summit’s agenda.

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***The Euro in a Shrinking Zone*** [***Robert Skidelsky***](http://www.project-syndicate.org/contributor/580) ***15-12-2011***

…Robert Skidelsky, a member of the British House of Lords, is Professor Emeritus of Political Economy at Warwick University.

The recent European Union summit was a disaster. Both Britain and Germany played the wrong game: British Prime Minister David Cameron isolated Britain from Europe, while German Chancellor Angela Merkel isolated the eurozone from reality.

The agreement reached in Brussels forecloses any possibility of Keynesian demand management to fight recession. “Structural” budget deficits would be limited to 0.5% of GDP, with (as yet undisclosed) penalties for violators.

[Marrëveshja e arritur në Bruksel perjashton çdo mundësi të menaxhimit Keynesian të kërkesës për të luftuar recesionin. Deficitet buxhetore "strukturore" do të kufizohen në 0.5% të PBB-së, me gjobat (ende të pazbuluara) për shkelësit.]

This is the wrong cure for the eurozone crisis. The Merkel doctrine holds that the crisis is the result of government profligacy (leshim), so only a “hard” balanced-budget rule can prevent such crises from recurring.

But Merkel’s analysis is utterly wrong. It was not deficit spending by governments that fueled the economic collapse of 2007-2008, but excessive lending by banks. Government’s mounting debts have been a *response* to the economic downturn, not its cause. What ought to have been hard-wired into the EU’s institutional structure was not permanent fiscal austerity, but tough financial regulation. Of this there is little sign.

The idea that a country can achieve a trade surplus by importing nothing is as fanciful (e çuditshme) as the idea that a government can repay its debt by starving itself of revenue. One person’s spending is another person’s income. In insisting that its main trade partners cut their spending, Merkel is cutting Germany off from the main sources of its own growth.

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***Fragile and Unbalanced in 2012*** [***Nouriel Roubini***](http://www.project-syndicate.org/contributor/1095) ***2011-12-15***

*Nouriel Roubini is Chairman of Roubini Global Economics and professor at the Stern School of Business, New York University.*

*Restoring robust growth is difficult enough without the ever-present specter of deleveraging (the process or practice of reducing the level of one’s debt by rapidly selling one’s assets) and a severe shortage of policy ammunition. But that is the challenge that a fragile and unbalanced global economy faces in 2012. To paraphrase Bette Davis in All About Eve, “Fasten your seatbelts, it’s going to be a bumpy year!”*

*[Rivendosja e rritjes së fuqishme është mjaft e vështirë pa spektrin gjithnjë të pranishem të deleverazhit (proces ose praktikë e reduktimit të nivelit të borxhit përmes shitjes së shpejtë të aseteve respektive) dhe një mungesë intensive e armëve (municionit) të politikës. Por kjo është sfida që një ekonomi e brishtë dhe e pabalancuar globale përballet në vitin 2012. Ta parafrazoj Bette Davis në “All About Eve ": “Lidhni rripin tuaj, sepse do të jetë një vit me gunga!”]*

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**Gordon Brown: Why we need tougher regulation of our financial system**

*There is an urgent need to reshape financial regulation in Britain and across the world to meet the new challenges of the 21st century.*

By Gordon Brown

15 Mar 2009

The new challenge is that with global financial flows so large and so interlinked, we live in a world where a bad bank anywhere is a threat to good banks everywhere; where financial products have become so complex that the senior management of banks often did not understand the risks they were taking on; and where selling assets around the globe did not diversify risk but instead spread contagion.

I have learned from this financial crisis that the disciplines we expect of markets cannot be guaranteed without strengthened supervision. This government and governments everywhere have to respond to the huge wave of global financial flows that spawned new trillion dollar markets outside the regulatory net.

Faced with these new realities, we must reshape our financial and regulatory system internationally and at home.

The starting point must be the five core principles I set out last October – transparency, accountability, responsible risk-taking, prudential regulation and international co-operation.

While the 1997 supervisory system was right for the circumstances we faced then, it is now clear that the detailed regulation of financial markets across the world did not keep up with the pace of change in the global economy.

In the coming weeks we will discuss with our G20 partners how we take the first and most critical steps towards more co-ordinated global financial supervision. And in the next few days Lord Turner will set out his review of financial regulation for Britain.

First, transparency means bringing the so-called 'shadow banking system' into the regulatory system, not operating parallel to it. And across the world, financial institutions need to be supervised not on what name they give themselves – be it banks, hedge funds or investment funds – but on what they do. We also need to ensure that all jurisdictions – such as offshore havens – and all important markets are covered by global supervision.

Second accountability means boardroom integrity, where boards of directors must understand and be held responsible for the risks they undertake. And credit rating agencies need to be free of conflicts of interest and be properly licensed.

Third, responsible risk taking means an end to the excesses from short-termism, instead rewarding people for long term success not short term deals. But to be most effective it has to be done internationally. A race to the bottom is in no ones interest. So we should agree a new international approach to pay and bonus structures.

The fourth principle of prudential regulation means taking into account the effect of a bank's capital, liquidity, solvency and conduct on the whole financial system.

The complex and strengthened supervision we require does not mean a return to the pre-1997 system, as some have suggested, which was undermined by Barings, BCCI and the scandal of the mis-selling of personal pensions. Indeed to end the pre-1997 mismatch of patchwork self regulation, it was right to set up – as it is to continue – with a unified regulator with strong powers to impose fines and curb market abuse.

Some say that prudential supervision – managing liquidity and solvency – and the conduct of business – the selling of products – should now be separated, what is called the twin peaks approach. In fact separating the regulation of conduct from the prudential supervision of financial institutions in the US. Hid for too long the scandal of subprime mortgages. Not surprisingly, a unified regulator – once criticised by some as too heavy-handed, too intrusive and too powerful – was subsequently copied by many countries around the world.

And just last week Ben Bernancke the chairman of the federal reserve said that he believed "the US needs an overarching regulatory authority to prevent a repeat of risks building up unchecked across the financial system." So the answer is not to abolish our single, expert regulator – the FSA – as some have suggested, but to strengthen it.

As we do so, we will need to do more to make sure banks put aside more capital during the good times so that they are better insulated from downturns. And as Alistair Darling has said, we need a workable means of ensuring that the FSA can tighten regulation if debt levels get too high.

And we must ensure that our regulators examine not just the solvency of our financial institutions but their liquidity as well. The reason that banks such as Northern Rock faced difficulty was because when global markets froze, they could no longer raise the short-term cash they needed to fund the obligations they had taken on.

Lastly, international co-operation lies at the heart of all our changes – recognising that financial institutions that work across borders need to be under cross border supervision too and regulators in one country must co-operate far more closely with regulators in other countries to create a global network of regulation that captures the risks to us all.

The world has changed beyond recognition not just in the past 10 years, but in the past 10 months too. Our system for financial regulation must change with it. This means a new tougher approach, addressing the new challenges, with a reformed, tougher and better-resourced Financial Services Authority at its core.

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**Europe’s Time to Learn**

[**Harold James**](http://www.project-syndicate.org/contributor/262)

**03 12 2010**

PRINCETON – Crises are a chance to learn. For the past 200 years, with the exception of the Great Depression, major financial crises originated in poor and unstable countries, which then needed major policy adjustments. Today’s crisis started in rich industrial countries – not only with sub-prime mortgages in the United States, but also with mismanagement of banks and public debt in Europe. So what will Europe learn, and what relevance will those lessons have for the rest of the world?

[Krizat janë një shans për të mësuar. Për 200 vitet e fundit, me përjashtim të Depresionit të Madh, krizat e mëdha financiare janë të krijuara në vendet e varfra dhe të paqëndrueshme, të cilat pastaj kanë nevojë për ndryshime të mëdha politike. Kriza e sotme ka filluar në vendet e pasura industriale - jo vetëm me hipotekat më kryesore në Shtetet e Bashkuara, por edhe me keq-menaxhimin e bankave dhe të borxhit publik në Evropë. Pra, çfarë do të mësojë Evropa dhe çfarë rëndësie do të kenë këto mësime për pjesën tjetër të botës?

Europe’s contemporary problems offer striking parallels with previous problems on the periphery of the world economy. In successive waves of painful crisis – in Latin America in the 1980’s, and in East Asia after 1997 – countries learned a better approach to economic policy and developed a more sustainable framework for managing public-sector debt. Today it is Europe’s turn.

Problemet bashkëkohore të Evropës ofrojnë paralele të mrekullueshme me problemet e mëparshme në periferi të ekonomisë botërore. Në valët e njëpasnjëshme të krizës së dhimbshme - në Amerikën Latine në vitin 1980, dhe në Azinë Lindore pas 1997 - vendet kanë mësuar një qasje më të mirë ndaj politikave ekonomike dhe kanë zhvilluar një kuadër më të qëndrueshëm për menaxhimin e borxhit në sektorin publik. Sot kjo është faqja e Evropës.

The European crisis is coming full circle. Initially a financial crisis, it morphed into a classic public-debt crisis after governments stepped in to guarantee banks obligations. That, in turn, has created a new set of worries for banks that are over-exposed to supposedly secure government debt. Sovereign debt no longer looks stable.

Kriza Evropian po vjen në rreth të plotë. Fillimisht kriza financiare u shndërrua në një krizë klasike të borxhit publik, pasi që qeveritë u pozicionuan për të garantuar detyrimet e bankave. Kjo, nga ana tjetër, ka krijuar një seri të re të shqetësimeve për bankat që janë të mbingarkuara për gjoja siguruar borxhin e qeverisë. Borxhi shtetëror nuk duket më i qëndrueshëm.

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If Europe could show – in the worst possible scenario of sovereign default – how such a process might operate, uncertainty would be reduced and markets would be reassured. And, in the longer term, we would have a viable international model of how to tackle severe sovereign-debt problems.

Në qoftë se Evropa mund të tregojë - në rastin më të keq të mundshëm të dështimit shtetëror (sovereign default) – se si një proces i tillë që mund të veprojë, pasiguria do të reduktohet dhe tregjet do të risigurohen. Dhe, në afat të gjatë, ne do të kemi një model të qëndrueshëm ndërkombëtar se si duhet trajtuar problemet e rënda të borxhit shtetëror.

*Harold James is Professor of History and International Affairs at Princeton University and Marie Curie Professor of History at the European University Institute, Florence. His most recent book is* The Creation and Destruction of Value: The Globalization Cycle*.*

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***The Euro at Mid-Crisis***

[***Kenneth Rogoff***](http://www.project-syndicate.org/contributor/433)

***02 12 2010***

CAMBRIDGE – Now that the European Union and the International Monetary Fund have committed €67.5 billion to rescue Ireland’s troubled banks, is the eurozone’s debt crisis finally nearing a conclusion?

Tani ajo që Bashkimi Evropian dhe Fondit Monetar Ndërkombëtar kanë zotuar 67.5 miliardë € për të shpëtuar bankat me probleme të Irlandës, a është afër përmbylla e krizë së borxhit të eurozonës?

Unfortunately, no. In fact, we are probably only at the mid-point of the crisis. To be sure, a huge, sustained burst of growth could still cure all of Europe’s debt problems – as it would anyone’s. But that halcyon scenario looks increasingly improbable. The endgame is far more likely to entail a wave of debt write-downs, similar to the one that finally wound up the Latin American debt crisis of the 1980’s.

Për fat të keq, jo. Në fakt, ne jemi ndoshta vetëm në pikën e mesme të krizës. Për të qenë të sigurtë, një hov i qëndrueshëm, i madh, i rritjes ende mundet për të kuruar të gjitha problemet e borxhit të Evropës – siç janë edhe të të tjerëve. Por se skenari i qetë duket gjithnjë e më i pamundshëm. Fundi i lojës është shumë më e mundshme të sjellë një valë të borxhit të pacaktuara, ngjashëm me atë që e kishim përfundimisht si një plagë në krizën e Amerikës Latine të borxhit, të viteve 1980-së.

For starters, there are more bailouts to come, with Portugal at the top of the list. With an average growth rate of less than 1% over the past decade, and arguably the most sclerotic labor market in Europe, it is hard to see how Portugal can grow out of its massive debt burden.

Për fillestarët, ekzistojnë më shumë raste që po vijnë që kanë nevojë për t’i ndihmuar (bailouts), me Portugalinë në krye të listës. Me një rritje mesatare prej më pak se 1% gjatë dekadës së kaluar dhe, ndoshta, me tregun më sklerotik të punës në Europë, është e vështirë për t’u parë se si Portugalia mund të përballojë barrën e madhe të borxhit.

This burden includes both public debt (owed by the government) and external dent (owed by the country as a whole to foreigners). The Portuguese rightly argue that their situation is not as dire as that of Greece, which is already in the economic equivalent of intensive care. But Portugal’s debt levels are still highly problematic by historical benchmarks (based on my research with Carmen Reinhart). With a baseline scenario of recession or sluggish growth amid budget austerity for years ahead, Portugal will likely seek help sooner rather than later.

Kjo barrë përfshin borxhin publik (borxh i marrë nga qeveria) dhe borxh i jashtëm (borxh i vendit, si tërësi, ndaj të huajve). Portugezët thonë se gjendja e tyre nuk është aq e tmerrshme si ajo e Greqisë, e cila është tashmë në ekuivalencë ekonomike me kujdesin intensiv. Por nivelet e borxhit të Portugalisë janë ende mjaft problematike nga provat historike (bazuar në hulumtimet e mia me Carmen Reinhart). Me një skenar bazë të recesionit apo rritjes së ngadaltë dhe shtrëngesave në buxhet, për vite në vijim, Portugalia ka të ngjarë të kërkojë ndihmë sa më shpejt.

Spain is a more difficult case. The central government is arguably solvent, but a significant chunk of municipal and provincial bank debt seems underwater. The big question in Spain is whether, as in Ireland, the central government will allow itself to be gamed into taking on private (and also municipal) debt. Here again, history gives no cause for optimism. It is very difficult for a central government to sit on the sidelines when the economy’s key players are on the brink of collapse.

Spanja është një rast më i vështirë. Qeveria qendrore është ndoshta më solvente, por një pjesë e konsiderueshme e borxhit të bankave komunale dhe provinciale duket nënujë (underwater). Pyetja e fortë në Spanjë është nëse, si në Irlandë, qeveria qendrore do t'i lejojë vetes të futet në lojë në marrjen përsipër të borxhit privat (dhe të komunave). Këtu përsëri, historia nuk na jep asnjë arsye për optimizëm. Është shumë e vështirë për një qeveri qendrore për t'u ulur mënjanë, ndërsa lojtarët kyç të ekonomisë janë në prag të kolapsit.

But bailouts for Portugal and Spain are only the next – and not necessarily final – phase of the crisis. Ultimately, a significant restructuring of private and/or public debt is likely to be needed in all of the debt-distressed eurozone countries. After all, bailouts from the EU and the IMF are only a temporizing measure: even sweetheart loans, after all, eventually must be repaid.

Por shpëtimet për Portugalinë dhe Spanjën janë vetëm fazat e ardhshme të krizës – dhe jo domosdoshmërisht përfundimtare. Në fund të fundit, një ristrukturim i rëndësishëm i borxhit privat dhe/ose publik, ka të ngjarë të jetë i nevojshëm në të gjitha vendet e euro-zonës. Në fund të fundit, dhënia e ndihmës nga BE-ja dhe FMN-ja janë vetëm një masë e përkohshme: madje, edhe kredia më e ëmbël, në fund, duhet të paguhet.

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Dictionary - [View detailed dictionary](http://www.google.com/dictionary?source=translation&hl=en&q=Now%20that%20the%20European%20Union%20and%20the%20International%20Monetary%20Fund%20have%20committed%20€67.5%20billion%20to%20rescue%20Ireland’s%20troubled%20banks,%20is%20the%20eurozone’s%20debt%20crisis%20finally%20nearing%20a%20conclusion?%20%20Unfortunately,%20no.%20In%20fact,%20we%20are%20probably%20only%20at%20the%20mid-point%20of%20the%20crisis.%20To%20be%20sure,%20a%20huge,%20sustained%20burst%20of%20growth%20could%20still%20cure%20all%20of%20Europe’s%20debt%20problems%20–%20as%20it%20would%20anyone’s.%20But%20that%20halcyon%20scenario%20looks%20increasingly%20improbable.%20The%20endgame%20is%20far%20more%20likely%20to%20entail%20a%20wave%20of%20debt%20write-downs,%20similar%20to%20the%20one%20that%20finally%20wound%20up%20the%20Latin%20American%20debt%20crisis%20of%20the%201980’s.%20%20For%20starters,%20there%20are%20more%20bailouts%20to%20come,%20with%20Portugal%20at%20the%20top%20of%20the%20list.%20With%20an%20average%20growth%20rate%20of%20less%20than%201%25%20over%20the%20past%20decade,%20and%20arguably%20the%20most%20sclerotic%20labor%20market%20in%20Europe,%20it%20is%20hard%20to%20see%20how%20Portugal%20can%20grow%20out%20of%20its%20massive%20debt%20burden.%20%20This%20burden%20includes%20both%20public%20debt%20(owed%20by%20the%20government)%20and%20external%20dent%20(owed%20by%20the%20country%20as%20a%20whole%20to%20foreigners).%20The%20Portuguese%20rightly%20argue%20that%20their%20situation%20is%20not%20as%20dire%20as%20that%20of%20Greece,%20which%20is%20already%20in%20the%20economic%20equivalent%20of%20intensive%20care.%20But%20Portugal’s%20debt%20levels%20are%20still%20highly%20problematic%20by%20historical%20benchmarks%20(based%20on%20my%20research%20with%20Carmen%20Reinhart).%20With%20a%20baseline%20scenario%20of%20recession%20or%20sluggish%20growth%20amid%20budget%20austerity%20for%20years%20ahead,%20Portugal%20will%20likely%20seek%20help%20sooner%20rather%20than%20later.%20%20Spain%20is%20a%20more%20difficult%20case.%20The%20central%20government%20is%20arguably%20sol)

As European policymakers seek to move from one stage of denial to another, perhaps it is time to start looking ahead more realistically. As any recovering alcoholic could tell them, the first step is admitting, with Merkel, that Europe has a problem.

Siç politikanët evropianë kërkojnë për të lëvizur nga një fazë e mohimit (të problemit) në një tjetër, ndoshta është koha të fillojnë të shikojnë përpara më realisht. Sikurse që çdo alkoolist i shëruar mund t’u thotë atyre, hapi i parë është pranimi, me Merkel, se Evropa e ka një problem.

Kenneth Rogoff is Professor of Economics and Public Policy at Harvard University, and was formerly chief economist at the IMF.

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**The International Organization of Securities Commissions (**[**IOSCO**](http://www.iosco.org/about/)**)[[1]](#footnote-1)**

*To guide countries in meeting these objectives, the International Organization of Securities Commissions (*[*IOSCO*](http://www.iosco.org/about/)*) identified and published* [*30 principles of securities regulation*](http://www.iosco.org/library/pubdocs/pdf/IOSCOPD82.pdf) *in 1998. The principles are grouped under the following eight categories:*

Për t’i drejtuar vendet në përmbushjen e këtyre objektivave, Organizata Ndërkombëtare e Komisioneve të Letrave me Vlerë (IOSCO) i ka identifikuar dhe botuar 30 parime te rregullimit (ligjor) të letrave me vlerë, në vitin 1998. *Këto parime janë të grupuara në tetë kategori:*

**1. Regulators (Rregullatorët).** Regulators should be suitably empowered, independent, and accountable **(**Rregullatorët duhet të jenë në masë të përshtatshme të autorizuar, pavarur dhe të përgjegjshëm)

**2. Self regulation (Vetërregullimi**)**.** Self-regulatory organizations (SROs)—such as exchanges, trade associations, and private agencies—should observe standards of fairness and confidentiality and be overseen by regulators [Organizatat vetërregullatore (OVRR) - të tilla si bursat, shoqatat tregtare dhe agjencitë private - duhet të respektojnë standardet e korrektësisë dhe konfidencialitetit dhe të mbikëqyren nga rregullatorët].

**3. Enforcement of regulation (Zbatimi i rregullores).** Regulators should have comprehensive inspection, investigation, surveillance, and enforcement powers [Rregullatorët duhet të kenë inspektim të plotë, hetim, mbikqyrje dhe kompetenca të zbatimit].

**4. Cooperation in regulation (Bashkëpunim në rregullore).** Regulators should be able to share both public and nonpublic information with domestic and foreign counterparts (Rregullatorët duhet të jenë në gjendje për të ndarë me homologët vendas dhe të huaj, informimin publik dhe jopublik]

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**5. Issuers (Emitentët).** Issuers should provide full, timely, and accurate disclosure of financial results and other information to investors and observe high accounting and auditing standards [Emitentët duhet të sigurojnë qasje të plotë, me kohë dhe të saktë në rezultatet financiare dhe informacione të tjera për investitorët dhe të respektojnë standardet më të larta të kontabilitetit dhe të auditimit]

**6. Collective investment schemes (CIS)(Skemat e investimeve kolektive).** Regulators should set standards for these increasingly popular schemes--notably their legal form and structure, disclosure, and asset valuation practices [Rregullatorët duhet të vendosin standarde për këto skema gjithnjë e më popullore - sidomos rreth formës dhe strukturës së tyre ligjore, zbulimit dhe praktikave të vlerësimit të aseteve]

**7. Market intermediaries (Ndërmjetësit e tregut)** **.** Regulators should set minimum entry standards as well as capital and other prudential requirements for intermediaries and establish procedures for dealing with their failure. **[**Rregullatorët duhet të caktojnë standardet minimale, si dhe hyrjen e kapitalit dhe kërkesat e tjera të kujdesshme për ndërmjetësues dhe të vendosë procedura për trajtimin e dështimeve të tyre.]

**8. Secondary market (Tregu sekondar).** Trading systems and securities exchanges require effective regulation and oversight, and trading activities should be transparent. [Sistemet e tregtimit dhe bursat kërkojnë rregullim dhe mbikëqyrje efektive, dhe aktivitetet tregtare duhet të jenë transparente.]

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***Europe’s Piecemeal Failure***

***By ALISTAIR DARLING***

***December 5, 2010***

More than anything, the problems in the euro zone have exposed the monetary union’s basic fault line. The euro zone shares a common currency, but the political and economic union that underpins it has a limited ability to resolve disagreements among member states and to take decisive steps to resolve difficulties.

The result is a political crisis alongside the economic one: commentators speak as if the only options are complete political union or the breakup of the euro zone. But the first will not happen, while the second would create many more painful and destabilizing problems. Instead, just as with the banking crisis, Europe must construct a firewall to stop the crisis from spreading.

This will involve two sets of steps. First, action is needed now to provide stability. To that end, the European Central Bank needs to make a firm commitment to buying government bonds from at-risk countries. That’s what it did during the Greek crisis, where its resolve played a key role in returning investor confidence to the bond market. Since then, however, it has sent out increasingly mixed signals about whether it would do so in the future (although last week [it did step up its bond purchases](http://www.nytimes.com/2010/12/03/business/global/03euro.html?hp), to some effect).

Më shumë se çdo gjë, problemet në zonën e euros kanë ekspozuar bazë linjë bashkimin monetar është faji. Aksionet e zonës euro një monedhë të përbashkët, por bashkimi politik dhe ekonomik që mbështet ai ka një mundësi të kufizuar për të zgjidhur mosmarrëveshjet midis vendeve anëtare dhe të marrin hapa vendimtarë për zgjidhjen e vështirësive.  
Rezultati është një krizë politike së bashku me një ekonomik: komentatorët flasin sikur opsionet e vetme janë bashkim të plotë politik ose shpërbërjes së zonën e euros. Por e para nuk do të ndodhë, ndërsa e dyta do të krijonte probleme shumë më të dhimbshme dhe destabilizuese. Në vend të kësaj, ashtu si me krizën bankare, Evropa duhet të ndërtojë një firewall për të ndaluar përhapjen e krizës.  
Kjo do të përfshijë dy grupe të hapa. Së pari, veprim është e nevojshme tani për të siguruar stabilitet. Për këtë qëllim, Banka Qendrore Evropiane duhet të bëjë një angazhim të fortë për të blerë bono qeveritare nga vendet në rrezik. Kjo është ajo që e bëri gjatë krizës së greke, ku zgjidhjen e saj ka luajtur një rol të rëndësishëm në kthimin e besimit të investitorëve në tregun e bonove. Që atëherë, megjithatë, ai ka dërguar sinjale të përziera gjithnjë nëse do ta bëjë këtë në të ardhmen (edhe pse javën e kaluar ajo u hap deri blerjet e bonove të saj, për të një efekt).

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**Capital formation[[2]](#footnote-2)**

**Formësimi I kapitalit**

*Capital formation is a term used in* [*national accounts*](http://en.wikipedia.org/wiki/National_accounts) *statistics and* [*macroeconomics*](http://en.wikipedia.org/wiki/Macroeconomics)*. It basically refers to the net additions to the (physical) capital* [*stock*](http://en.wikipedia.org/wiki/Stock_and_flow) *in an accounting period, or, to the value of the increase of the capital stock; though it may occasionally also refer to the total stock of capital formed. Thus, in* [*UNSNA*](http://en.wikipedia.org/wiki/UNSNA)*, capital formation 0* [*fixed capital*](http://en.wikipedia.org/wiki/Fixed_capital) *investment, the increase in the value of* [*inventories*](http://en.wikipedia.org/w/index.php?title=Inventories&action=edit&redlink=1) *held, plus (net) lending to foreign countries, during an accounting period. Capital is said to be "formed" when savings are used for investment purposes, often investment in production.*

[Formësimi i kapitalit është një term i përdorur në statistikat e llogarive kombëtare dhe në makroekonomi. Ajo i referohet kryesisht shtesave neto të stoqeve (fizike) të kapitalit, në një periudhë kontabël, ose, vlerës së rritjes së stoqeve të kapitalit; edhe pse, herë pas here, ky mund t'i referohet edhe stokut të kapitalit të formësuar.

Kështu, në UNSNA, formësimi i kapitalit është i barabartë me investimet fikse kapitale, rritjen e vlerës së inventarëve të mbajtur, plus kreditimi (neto) i vendeve të huaja, gjatë një periudhe kontabël.

Kapitali është thënë se do të jetë i "formësuar" kur kursimet janë të përdorura për qëllime të investimeve, zakonisht për investime në prodhim.]

**Types of Capital Formation**

**Llojet e formësimit të kapitalit**

* **Savings drives** *(transmisionet e kursimeve)*
* **Setting up financial institutions** *(ngritja e institucioneve financiare)*
* **Fiscal measures** *(masat fiskale)*
* **Public Borrowings** *(huatë publike)*
* **Development of capital market** *(zhvillimi i tregut të kapitalit)*
* **Privatization of financial institutions** *(privatizimi i institucioneve financiare)*
* **Development of secondary financial markets** *(zhvillimi i tregjeve financiare sekondare)*

**Gross and net capital formation**

(Formësimi bruto dhe neto i kapitalit)

Capital formation can be valued *gross* (without deductions for [depreciation](http://en.wikipedia.org/wiki/Consumption_of_fixed_capital)) or *net* (adjusted for depreciation write-offs).

[Formësimi i kapitalit mund të vlerësohet në vlerën **bruto** (pa zbritje të amortizimin) ose **neto** (e përshtatur me vlerën e zbritshme të amortizimit)].

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**Frederic S. Mishkin**, **The Economics of Money, Banking, and Financial Markets**, Columbia University, Seventh Edition, 2004.

**The basic function of financial markets**

An important trend in recent years is the growing internationalization of financial markets. Eurobonds, which are denominated in a currency other than that of the country in which they are sold, are now the dominant security in the international bond market and have surpassed U.S. corporate bonds as a source of new funds. Eurodollars, which are U.S. dollars deposited in foreign banks, are an important source of funds for American banks.

[Një trend i rëndësishëm, në vitet e fundit, është ndërkombëtarizimi në rritje i tregjeve financiare. Euroobligacionet (Eurobonds), të cilat janë të shprehura në një valutë tjetër nga ajo e vendit në të cilin ato janë të shitura, tani janë letrat me vlerë dominuese në tregun ndërkombëtar të obligacioneve, ndërsa kanë tejkaluar obligacionet e korporatave amerikane, si një burim i fondeve të reja. Eurodollarët (Eurodollars), që janë dollarë amerikanë të depozituar në bankat e huaja, janë një burim i rëndësishëm i fondeve për banka t amerikane].

The basic function of financial markets is to channel funds from savers who have an excess of funds to spenders who have a shortage of funds. Financial markets can do this either through direct finance, in which borrowers borrow funds directly from lenders by selling them securities, or through indirect finance, which involves a financial intermediary that stands between the lender-savers and the borrower-spenders and helps transfer funds from one to the other. This channeling of funds improves the economic welfare of everyone in the society, because it allows funds to move from people who have no productive investment opportunities to those who have such opportunities, thereby contributing to increased efficiency in the economy. In addition, channeling of funds directly benefits consumers by allowing them to make purchases when they need them most.

[Funksioni themelor i tregjeve financiare është kanalizimi i fondeve nga kursimtarët që kanë tepricë të fondeve drejt shpenzuesve të cilët kanë mungesë të fondeve.

Tregjet financiare mund ta bëjnë këtë ose nëpërmjet financimit të drejtpërdrejtë, në të cilin huamarrësit marrin fonde direkt nga huadhënësit, përmes shitjes atyre të letrave me vlerë, ose me anë të financimit të tërthortë, i cili përfshin ndërmjetës financiarë të cilët qëndrojnë në mes të kursimtarëve-huadhënës dhe huamarrësve-shpenzues, duke ndihmuar në transferin e fondeve midis njëri-tjetrit.

Kjo bartje e fondeve përmirëson mirëqenien ekonomike të të gjithëve në shoqëri, sepse kjo ua mundëson për t’i lëvizur fondet nga njerëz që nuk kanë mundësi të investimeve produktive tek ata që kanë mundësi të tilla, duke kontribuar, kështu, në rritjen e efikasitetit në ekonomi.

Përveç kësaj, nga drejtimi i fondeve, dobi të drejtpërdrejtë kanë konsumatorët, duke i lejuar ata të bëjnë blerje, kur ata kanë nevojë më së shumti për to.]

The government regulates financial markets and financial intermediaries for two main reasons: to increase the information available to investors, and to ensure the soundness of the financial system. Regulations include: requiring disclosure of information to the public, restrictions on who can set up a financial intermediary, restrictions on what assets financial intermediaries can hold, the provision of deposit insurance, reserve requirements, and the setting of maximum interest rates that can be paid on checking accounts and savings deposits.

Qeveria, tregjet financiare dhe ndërmjetësit financiarë, i rregullon për dy arsye kryesore:

* për rritjen e informacionit në dispozicion të investitorëve, dhe
* për të siguruar qëndrueshmërinë e sistemit financiar.

Rregullacionet (ligjore) përfshijnë:

* + kërkesën për zbulimin e informacionit për publikun,
  + kufizimet se kush mund të krijojë një ndërmjetës financiar,
  + kufizime mbi atë se çfarë pasurie mund të mbajnë ndërmjetësit financiarë,
  + provizionin e depozitit të sigurimit,
  + kërkesat për rezervë, dhe
  + vendosjen e normave maksimale të interesit që mund të paguhen në llogaritë rrjedhëse dhe në depozita të kursimit.

Patterns of financing corporations differ across countries, but *one key fact emerges:* studies of the major developed countries, including the United States, Canada, Great Britain, Japan, Italy, Germany, and France, show that when businesses go looking for funds to finance their activities, they usually obtain them indirectly through financial intermediaries and not directly from securities markets. Even in the United States and Canada, which have the most developed securities markets in the world, loans from financial intermediaries are far more important for corporate finance than securities markets are. The countries that have made the least use of securities markets are Germany and Japan; in these two countries, financing from financial intermediaries has been almost *ten times greater* than that from securities markets.

[Modelet e financimit të korporatave ndryshojnë në të gjithë vendet, por një fakt kyç shquhet: studimet e vendeve të mëdha të zhvilluara, përfshirë Shtetet e Bashkuara, Kanadaja, Britania e Madhe, Japonia, Italia, Gjermania dhe Franca, tregojnë se kur bizneset shkojnë në kërkim të fondeve për financimin e aktiviteteve të tyre, ato zakonisht i marrin ato (fondet) në mënyrë indirekte, nëpërmjet ndërmjetësve financiarë dhe jo drejtpërdrejt nga tregjet e letrave me vlerë. Madje, edhe në Shtetet e Bashkuara dhe në Kanada, të cilat kanë tregjet më të zhvilluar të letrave me vlerë në botë, huatë nga ndërmjetësit financiarë janë shumë më të rëndësishme për financimin e korporatave se sa që janë tregjet e letrave me vlerë. Vendet që kanë bërë më së paku për të përdorur tregjet e letrave me vlerë janë Gjermania dhe Japonia; në këto dy vende, financimi nga ndërmjetësit financiarë ka qenë pothuajse dhjetë herë më i madh se që ka qenë nga tregjet e letrave me vlerë].

Although the dominance of financial intermediaries over securities markets is clear in all countries, the relative importance of bond versus stock markets differs widely across countries. In the United States, the bond market is far more important as a source of corporate finance: On average, the amount of new financing raised using bonds is ten times the amount using stocks. By contrast, countries such as France and Italy make use of equities markets more than the bond market to raise capital.

[Edhe pse dominimi i ndërmjetësve financiarë kundrejt tregjeve të letrave me vlerë është i qartë në të gjitha vendet, rëndësia relative e obligacioneve kundrejt tregjeve të aksioneve ndryshon gjerësisht nëpër vende. Në Shtetet e Bashkuara, tregu i obligacioneve është shumë më i rëndësishëm si burim i financave korporative: mesatarisht, shuma e shtuar e financimeve të reja duke përdorur obligacionet është dhjetë herë më shumë se sa shuma e financimeve me aksione. Në të kundërtën, vendet e tilla si Franca dhe Italia, i përdorin tregjet e aksioneve më shumë se tregun e obligacioneve për të rritur kapitalin].

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<http://financialedge.investopedia.com/financial-edge/0510/Greece-The-Worst-Case-Scenario.aspx>

**Greece: The Worst-Case Scenario**

**May 7, 2010, by** [**Stephen Simpson**](http://www.investopedia.com/contributors/default.aspx?id=310)

While there has been a great deal of attention paid over the last few months to the nascent recovery in the United States, the ongoing Greek [sovereign debt](http://www.investopedia.com/terms/s/sovereignbond.asp) crisis in Europe is a reminder that there are often long-tail effects to recessions and global economic shake-ups.

[Ndonëse ka patur një marrëveshje të madhe të vëmendjes gjatë disa muajve të fundit për rimëkëmbjen që po lind në Shtetet e Bashkuara, kriza greke e borxhit publik që po vazhdon në Evropë është një përkujtues se ekzistojnë shpeshherë efekte afatgjata të recesionit dhe tronditjeve në rritje të ekonomisë globale].

**How Did This Happen?**

What has happened is the result of a long series of bad decisions. The establishment of the euro effectively gave Greece access to a huge amount of relatively cheap debt, but Greek officials did not put the proceeds of this debt to good use. Since the euro came into existence, Greece's ratio of debt to [GDP](http://www.investopedia.com/terms/g/gdp.asp) has stayed above 100% and the country ran persistent deficits in excess of 10% of GDP. Ultimately, when investors (and, belatedly, the ratings agencies) realized that the emperor had no clothes, rates on Greek debt began to creep up, and matters culminated in the S&P [downgrade](http://www.investopedia.com/terms/d/downgrade.asp) of Greek debt to "junk" status on April 27 of 2010.

What will happen next will not be pretty. A [bailout](http://www.investopedia.com/terms/b/bailout.asp) package will give Greece up to 110 billion euros in total. That is intended to buy Greece time to get their house in order, but that means a tremendous austerity program - including major cuts in public wages and pensions and a host of new taxes.

Si ndodhi kjo?

Ajo që ka ndodhur është rezultat i një serie të gjatë të vendimeve të këqija. Establishmenti vendimmarrës i eurozonës në mënyrë efektive i ka dhënë Greqisë qasje në shuma të mëdha të borxhit relativisht të lirë, por zyrtarët grekë nuk i kanë vënë në përdorim të mirë të ardhurat nga ky borxh. Që nga koha kur ekziston euro, raporti i borxhit të Greqisë ndaj BPB-së ka qëndruar mbi 100% dhe vendi u zhyt në deficite të vazhdueshme, më shumë se 10% të BPB-së. Në fund të fundit, kur investitorët (dhe, me vonesë, agjencitë e rangimit) e kuptuan se ‘perandori nuk kishte rroba’, normat në borxhin grek filluan të lëvizin ngadalë lart, dhe çështjet e arritën kulmin në degradimin e S&P të borxhit grek në statusin "junk" (të lodhur, me më pak vlerë), më 27 prill të vitit 2010.]

Çfarë do të ndodhë më pas nuk do të jetë goxha e lehtë. Një paketë shpëtimi do t’i japë Greqisë deri në 110 miliardë euro gjithsej. Kjo ka për qëllim që Greqia ta blejë kohën deri sa ta rregullojë shtëpinë e saj, por që do të thotë një program të madh të rreptë - duke përfshirë shkurtime të mëdha në paga dhe pensione publike dhe një mori të tatimeve të reja.]

**Can Countries Go Bankrupt?**

Sovereign nations like Greece cannot go bankrupt. What happens instead is a process called sovereign default whereby a nation renegotiates the terms of the debt (including the interest rate, the length of the loan, the schedule of repayments, etc.) and/or replaces it with new debt. This process generally leaves the original creditors with about 25-50% of the amount they originally loaned.

Greece is not the first country to contemplate default; there were a reathtaking number of sovereign defaults across the world in the 1980s. More recently, we saw Russia default on its internal debt (GKOs) in 1998 and Argentina default on its external debt in 2002. In most cases, the causes were similar - too much debt relative to GDP, debt spent on nonproductive assets (or outright stolen through corruption) and persistently high deficits as a percentage of GDP. (For more, see [*Government Bailouts Around The World*](http://financialedge.investopedia.com/financial-edge/0510/Government-Bailouts-Around-The-World.aspx).)

A ka mundësi të falimentimit të shteteve?

Shtetet sovrane, sic eshte Greqia, nuk mund të falimentojnë. Çfarë ndodh në vend të kësaj është një proces i quajtur ‘*sovereign default’* (*mosplotësim i zotimeve të sovranit*), ku një shtet i rinegocion kushtet e borxhit (duke përfshirë normën e interesit, gjatësinë e kredisë, orarin e pagesave, etj,) dhe/ose e zëvendëson atë me borxh të ri. Ky proces në përgjithësi miratohet nga kreditorët me rreth 25-50% të shumës që ata fillimisht kanë huazuar.

Greqia nuk është vendi i parë që është zhytur në vështirësi të tilla; ka pasur një numër që të lë pa frymë i dështimeve në plotësimin e zotimeve të borxhit shtetëror në të gjithë botën, në vitet 1980. Kohët e fundit, ne pamë mospagimin e borxhit të brendshëm të Rusinë, në 1998, dhe mospagimin e borxhit të jashtëm të Argjentinës në vitin 2002. Në shumicën e rasteve, shkaqet ishin të ngjashme - shumë borxh në raport me BPB, borxhi i shpenzuar në asete joproduktive (ose i vjedhur nëpërmjet korrupsionit të hapur) dhe deficite vazhdimisht të larta si përqindje në BPB.

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**EU Economics? It's All Greek To Me!**

by [Jonas Elmerraji](http://www.investopedia.com/contributors/default.aspx?id=118)

March 22, 2010

The debt crisis unfolding in Greece has caught investors' attention all over the world – that's obvious. But what's less clear is what caused Greece's present predicament and how it could eventually affect investors here in the U.S. and in other EU nations. Here's a look at how the fallout from Greece's [sovereign debt](http://www.investopedia.com/terms/s/sovereignbond.asp) crisis could impact portfolios on Wall Street and Main Street.

Kriza e borxhit e shfaqur në Greqi ka kapur vëmendjen e investitorëve në gjithë botën - kjo është e qartë. Por, ajo që është më pak e qartë është se çfarë e shkaktoi këto vështirësi të pranishme në Greqi dhe se si ato mund të ndikojnë përfundimisht në investitorët këtu në SHBA dhe në vendet e BE. Këtu ka një pikëvështrim se si pasojat nga kriza e borxhit sovran të Greqisë mund të ndikojnë në portofolet në Wall Street dhe Main Street.

**A Sticky Situation (**Një situatë ngjitëse)

First, it's important to understand how the EU's sovereign debt crisis started, and which countries could be next in line with a crisis of their own. The main contributor to Greece's financial straits shouldn't be all that unfamiliar to scores of Americans who hit tough times in 2008. After all, it's the same problem - spending. Like consumers who became overleveraged and spent more than they took home, Greece undertook a policy of [deficit spending](http://www.investopedia.com/terms/d/deficit-spending.asp) to support its vast social programs. These programs, like ours here at home, ballooned out of control as the economy soured.

Së pari, është e rëndësishme për të kuptuar se si ka filluar kriza e borxhit shtetëror të BE-së dhe cilat vende mund të jetë në radhë që të kenë krizat e tyre. Kontribuesi kryesor për vështirësitë ekonomike të Greqisë nuk duhet të jetë, mbi të gjitha, i panjohur për amerikanët të cilët kaluan kohë të vështira në 2008. Në fund të fundit, ky është i njëjti problem - shpenzimet. Sikurse konsumatorët që u mbingarkuan dhe shpenzuan më shumë se që fituan (sollën të ardhura në shtëpi), Greqia ndërmori një politikë të shpenzimeve të deficitit në mbështetje të programeve të mëdha sociale. Këto programe, sikurse këtu tek ne në shtëpi, kanë dalë jashtë kontrollit, kur ekonomia është përkeqësuar.

To finance its overspending, the Greek government borrowed, issuing debt at an increasing rate. But borrowing only lasts for so long. As lawmakers in Athens increased the country's debt load, anxious investors effectively increased the cost of borrowing for Greece by widening [bond yield spreads](http://www.investopedia.com/terms/h/high-yield-bond-spread.asp) and increasing the [risk premium](http://www.investopedia.com/terms/r/riskpremium.asp) for [credit default swaps](http://www.investopedia.com/terms/c/creditdefaultswap.asp) on Greek debt.

Për të financuar shpenzimin e saj të tepërt, qeveria greke ka huazuar duke emituar borxh me një normë rritëse. Por huamarrja s’zgjat për shumë kohë të gjatë. Ashtu siç ligjvënësit në Athinë e rritën ngarkesën e borxhit të vendit, investitorët e shqetësuar në mënyrë efektive e rritën koston e huamarrjes për Greqinë duke zgjeruar përhapjen e dhënies së obligacioneve dhe duke rritur primin e rrezikut për Svopet e moskthimit të kredive në borxhin grek.

Put more simply, as Greece continued to borrow at high levels, the cost of borrowing money increased too, making each dollar Greece borrowed cost more in interest than the last. But the consequences for increased borrowing are bigger than Greece itself. Because Greece is part of the European Union – and shares much of its economy with the other 26 member states – the risks of economic collapse in Greece could well reverberate throughout the [Eurozone](http://www.investopedia.com/terms/e/eurozone.asp). (For more, see [*When did the Euro debut?*](http://www.investopedia.com/ask/answers/09/euro-introduction-debut.asp))

E thënë më thjesht, meqë Greqia vazhdon të marrë hua në nivele të larta, kostoja e huamarrjes është rritur gjithashtu, duke bërë që çdo dollar i borxhit grek të kushtojë më shumë në interes se borxhi i fundit. Por pasojat për huamarrje të shtuar janë më të mëdha se Greqia vetë. Meqenëse Greqia është pjesë e Bashkimit Evropian - dhe ekonominë e tyre e ndajnë me 26 shtetet tjera anëtare - rreziku i kolapsit ekonomik në Greqi do të mund të kumbonte përgjatë Eurozonës.

That risk of one state affecting the entire Euro system has been a concern of the EU from its early days. As a result, the union passed the *Stability and Growth Pact*, which puts a ceiling on debt at 60% of [GDP](http://www.investopedia.com/terms/g/gdp.asp) and deficit spending at 3% of GDP. Unfortunately for the EU, those restrictions have been difficult to enforce, leading to a situation where a handful of countries are in violation of at least one of those restrictions (Greece is in violation of both).

Se rreziku i një shteti për të prekur të gjithë Euro-sistemin ka qenë një shqetësim i BE-së që nga ditët e para të tij. Si rezultat, Unioni ka miratuar Paktin e Stabilitetit dhe të Rritjes (*Stability and Growth Pact)*, i cili e vendos një tavan për borxhin në 60% të BPB-së dhe për shpenzime të deficitit në 3% të BPB-së. Për fat të keq të BE-së, këto kufizime kanë qenë të vështira për t’u zbatuar, duke çuar në një situatë ku një pjesë e vogël e vendeve janë në shkelje të të paktën njërës nga këto kufizime (Greqia është në shkelje të të dyja).

**PIIGS at the Slaughter (**PIIGS në kasaphanë)

The situation in the EU would be largely contained if Greece were the only country affected right now by staggering debts and deficits, but it's not. Portugal, Italy, Ireland and Spain are also at risk of serious economic consequences right now, and investors are rightfully concerned. The five countries are sometimes referred to as the PIIGS.

Situata në BE do të jenë në masë të madhe e përmbajtur në qoftë se Greqia do të ishte i vetmi vend i prekur, tani për tani, nga borxhet dhe deficitet tronditëse, por nuk është kështu. Portugalia, Italia, Irlanda dhe Spanja janë tashti, gjithashtu, në rrezik me pasoja të rënda ekonomike, ndërsa investitorët janë të shqetësuar me të drejtë. Të pesë vendet nganjëherë i referohen si PIIGS (Portugalia, Italia, Irlanda, Greqia dhe Spanja).

Listen

Read phonetically

Dictionary - [View detailed dictionary](http://www.google.com/dictionary?source=translation&hl=en&q=&langpair=)

In early February, Portugal attempted to raise 500 million euros from a T-bill auction, but ended up reducing the amount and selling only 300 million euros of T-bills – a sign that investors were betting on a significantly increased likelihood that the Mediterranean nation would default on its sovereign debt. Despite the drama unfolding elsewhere, however, Greece continues to be the most pressing priority – at least for the moment.

Në fillim të shkurtit, Portugalia u përpoq për të marrë 500 milionë € nga një ankand i Bonove të Thesarit (T-bill), por përfundoi duke ulur sasinë e shitur në vetëm 300 milionë euro të bonove të thesarit - një shenjë që investitorët kishin vërë bast mbi gjasat e rritura ndjeshëm se shtetet e Mesdheut do të mos i plotësojnë detyrimet e tyre të borxhit shtetëror (publik). Pavarësisht nga drama e shpalosur diku tjetër, megjithatë, Greqia vazhdon të jetë prioriteti më i ngutshëm - të paktën për momentin.

Listen

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**The EU's Subtle Safety Net (**Rrjeti Delikat i Sigurisë i BE-së)

But many of the concerns going on right now may be overdone. After all, while the financial collapse of an EU country would take a serious toll on U.S. markets, that's nothing compared to the toll it would take on other EU countries – like France or Germany. As a result, it's more than likely that we'll see financially stable European states step in before it's too late. (For related reading, check out Can The [*IMF Solve Global Economic Problems?*](http://www.investopedia.com/articles/economics/09/international-monetary-fund-imf.asp)

Por, shumë nga shqetësimet që po ndodhin tani mund të jenë të zmadhuara. Pas të gjithave, ndërsa kolapsi financiar i një vendi të BE do të marrë një çmim (taksë) të rëndë në tregjet e SHBA, kjo nuk është asgjë në krahasim me çmimin (taksën) që do të marrë në vendet tjera të Bashkimit Evropian – siç është Franca apo Gjermania. Si rezultat, kjo është më se e mundshme që ne do të shohim hapa (konsolidues) të shteteve europiane për të qenë financiarisht të qëndrueshme, para se nuk është shumë vonë.

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**“Trilema politike e ekonomisë botërore“ (The political trilemma of the world economy)**

**Greek Lessons for the World Economy** (Mësimet greke për ekonominë botërore)

[Dani Rodrik](http://www.project-syndicate.org/contributor/66)

May 11, 2010

*Dani Rodrik, Professor of Political Economy at Harvard University’s John F. Kennedy School of Government, is the first recipient of the Social Science Research Council’s Albert O. Hirschman Prize. His latest book is One Economics, Many Recipes: Globalization, Institutions, and Economic Growth.*

CAMBRIDGE – The $140 billion support package that the Greek government has finally received from its European Union partners and the International Monetary Fund gives it the breathing space needed to undertake the difficult job of putting its finances in order. The package may or may not prevent Spain and Portugal from becoming undone in a similar fashion, or indeed even head off an eventual Greek default. Whatever the outcome, it is clear that the Greek debacle has given the EU a black eye.

Deep down, the crisis is yet another manifestation of what I call “the political trilemma of the world economy”: economic globalization, political democracy, and the nation-state are mutually irreconcilable. We can have at most two at one time. Democracy is compatible with national sovereignty only if we restrict globalization. If we push for globalization while retaining the nation-state, we must jettison democracy. And if we want democracy along with globalization, we must shove the nation-state aside and strive for greater international governance.

The history of the world economy shows the trilemma at work. The first era of globalization, which lasted until 1914, was a success as long as economic and monetary policies remained insulated from domestic political pressures. These policies could then be entirely subjugated to the demands of the gold standard and free capital mobility. But once the political franchise was enlarged, the working class got organized, and mass politics became the norm, domestic economic objectives began to compete with (and overwhelm) external rules and constraints.

The classic case is Britain’s short-lived return to gold in the interwar period. The attempt to reconstitute the pre-World War I model of globalization collapsed in 1931, when domestic politics forced the British government to choose domestic reflation over the gold standard.

The architects of the Bretton Woods regime kept this lesson in mind when they redesigned the world’s monetary system in 1944. They understood that democratic countries would need the space to conduct independent monetary and fiscal policies. So they contemplated only a “thin” globalization, with capital flows restricted largely to long-term lending and borrowing. John Maynard Keynes, who wrote the rules along with Harry Dexter White, viewed capital controls not as a temporary expedient but as a permanent feature of the global economy.

The Bretton Woods regime collapsed in the 1970’s as a result of the inability or unwillingness – it is not entirely clear which – of leading governments to manage the growing tide of capital flows.

The third path identified by the trilemma is to do away with national sovereignty altogether. In this case, economic integration can be married with democracy through political union among states. The loss in national sovereignty is then compensated by the “internationalization” of democratic politics. Think of this as a global version of federalism.

The United States, for example, created a unified national market once its federal government wrested sufficient political control from individual states. This was far from a smooth process, as the American Civil War amply demonstrates.

The EU’s difficulties stem from the fact that the global financial crisis caught Europe midway through a similar process. European leaders always understood that economic union needs to have a political leg to stand on. Even though some, such as the British, wished to give the Union as little power as possible, the force of the argument was with those who pressed for political integration alongside economic integration. Still, the European political project fell far short of the economic one.

Greece benefited from a common currency, unified capital markets, and free trade with other EU member states. But it does not have automatic access to a European lender of last resort. Its citizens do not receive unemployment checks from Brussels the way that, say, Californians do from Washington, DC, when California experiences a recession. Nor, given linguistic and cultural barriers, can unemployed Greeks move just as easily across the border to a more prosperous European state. And Greek banks and firms lose their creditworthiness alongside their government if markets perceive the latter to be insolvent.

The German and French governments, for their part, have had little say over Greece’s budget policies. They could not stop the Greek government from borrowing (indirectly) from the European Central Bank (ECB) as long as credit rating agencies deemed Greek debt creditworthy. If Greece chooses default, they cannot enforce their banks’ claims on Greek borrowers or seize Greek assets. Nor can they prevent Greece from leaving the eurozone.

What all this means is that the financial crisis has turned out to be a lot deeper and its resolution considerably messier than necessary. The French and German governments have grudgingly come up with a major loan package, but only after considerable delay and with the IMF standing at their side. The ECB has lowered the threshold of creditworthiness that Greek government securities must meet in order to allow continued Greek borrowing.

The success of the rescue is far from assured, in view of the magnitude of belt-tightening that it calls for and the hostility that it has aroused on the part of Greek workers. When push comes to shove, domestic politics trumps foreign creditors.

The crisis has revealed how demanding globalization’s political prerequisites are. It shows how much European institutions must still evolve to underpin a healthy single market. The choice that the EU faces is the same in other parts of the world: either integrate politically, or ease up on economic unification.

Before the crisis, Europe looked like the most likely candidate to make a successful transition to the first equilibrium – greater political unification. Now its economic project lies in tatters while the leadership needed to rekindle political integration is nowhere to be seen.

The best that can be said is that Europe will no longer be able to delay making the choice that the Greek affair has laid bare.  If you are an optimist, you might even conclude that Europe will therefore ultimately emerge stronger.

Paketa mbështetëse $ 140 miliardëshe që qeveria greke ka marrë më në fund nga partnerët e saj të Bashkimit Evropian dhe Fondit Monetar Ndërkombëtar i jep hapësirë të marrë frymë, e nevojshme për të ndërmarrë punën e vështirë të sjelljes në rregull të financave të saj. Paketa mund ose jo të parandalojë Spanjën dhe Portugalinë të bëhet e ‘fikur’ në mënyrë të ngjashme, apo me të vërtetë të kthehet për së mbari. Pavarësisht nga përfundimi, është e qartë se përmbysja greke i ka dhënë BE-së një turp .

E shikuar më thellë, kriza është edhe një manifestim i asaj që unë e quaj "trilemma politike e ekonomisë botërore“ (the political trilemma of the world economy ): globalizmi ekonomik, demokracia politike dhe komb-e-shteti janë reciprokisht të papajtueshme.

Ne mund t’i kemi më së shumti dy (nga këto) në një kohë. Demokracia është në përputhje me sovranitetin kombëtar vetëm në qoftë se ne kufizojnë globalizimin. Nëse do ta shtyjmë përpara globalizimin, duke e mbajtur shtetin-komb, ne duhet hedhur demokracinë. Dhe, në qoftë se ne duam demokraci, së bashku me globalizimin, ne duhet të lëmë mënjanë shtetin-komb dhe të përpiqemi për një qeverisje më të madhe ndërkombëtare.

Historia e ekonomisë botërore tregon trilemn në vepër. Epoka e parë e globalizimit, e cila zgjati deri në vitin 1914, ishte një sukses për sa kohë që politikat ekonomike dhe monetare mbetën të izoluara nga presionet e brendshme politike. Këto politika mund të jenë vënë tërësisht nën kontroll të kërkesave të standardit të arit dhe lëvizjes se lirë të kapitalit. Por, sapo është zgjeruar ekskluziviteti politik, klasa punëtore u organizua, ndërsa politika e masës u bë normë, objektivat ekonomike vendore filluan të konkurrojnë me (dhe t’I trullosin) rregullat dhe kufizimet e jashtme.

Rasti klasik është kthimi jetëshkurtër i Britanisë në standardin e arit në periudhën e luftërave. Përpjekjet për të rikonstruktuar (ripërtërirë) modelin e globalizimit para Luftës së Parë Botërore u shembën në vitin 1931, kur politikat e brendshme e detyruan qeverinë britanike për të zgjedhur reflacionin (rritje e sasisë së parasë në qarkullim në një ekonomi) vendor kundrejt standardit të arit.

Arkitektët e regjimit të Bretton Woods-it e mbajtën këtë mësim në mendje kur ridizajnuan sistemin monetar në botë në vitin 1944. Ata e kuptuan se vendet demokratike do të kenë nevojë për hapësirë për të zhvilluar politika të pavarura monetare dhe fiskale. Pra, ata parashikuan vetëm një globalizim të “hollë”, me flukse të kufizuara të kapitalit, kryesisht në huadhënie dhe huamarrje afatgjatë. John Maynard Keynes, i cili shkroi rregullat, së bashku me Harry Dexter White, kontrollet e kapitalit i shihte jo si një dobi të përkohshme, por si një tipar i përhershëm i ekonomisë globale.  
Regjimi i Bretton Woods-it u shemb në vitin 1970 si rezultat i paaftësisë ose mosdashjes - kjo nuk është plotësisht e qartë - për të udhëhequr qeveritë për të menaxhuar valën në rritje të fluksit të kapitalit.

Rruga e tretë e identifikuar nga trilema është të largojë krejt nga sovraniteti kombëtar. Në këtë rast, integrimi ekonomik mund të jetë në bashkëshortësi me demokracinë nëpërmjet bashkimit politik ndërmjet shteteve. Humbja në sovranitetin kombëtar është kompensuar pastaj me "internacionalizimin" e politikës demokratike. Mendimi i tillë është një version global i federalizmit.

**The Financial Crisis of 2007-2009: Causes and Remedies**  
Viral Acharya, Thomas Philippon, Matthew Richardson, and Nouriel Roubini, pg 110-113

IV. Efficient Regulation: Principles and Proposals

In order to provide a framework for efficient regulation of the financial sector based on sound economic principles, we reiterate the four important themes that have been intertwined (*ndërthurur*) in producing this trenchant (*fuqishme*) crisis.

While the discussion below overlaps to an extent with the preceding one, its goal is to establish the core set of issues and the linkages between them and reinforce how they combined into a lethal (*vdekjeprurës*) mixture risking the financial stability and real-sector output of our economies.

These four themes are:

1. Risk-taking incentives at banks and financial institutions;

2. Mispriced guarantees awarded to the financial sector;

3. Increasing opaqueness of the financial sector and resulting counterparty risk externality;

4. Focus of regulation on institution-level risk rather than on aggregate or systemic risk.

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http://www.washingtonpost.com/wp-dyn/content/article/2008/11/27/

**A Win-Win Bankruptcy Reform**

By Rich Leonard  
November 28, 2008

I watched a middle-aged widow lose her home recently.

Her story was familiar. She owned her simple brick residence outright until four years ago, when a mortgage broker stopped by and offered her a loan too good to be true. In exchange for taking on a modest monthly payment, she could make some needed repairs and consolidate other debts.

More sophisticated than many borrowers, she realized she was getting an adjustable-rate mortgage. What she didn't realize was that, in the biggest "bait-and-switch" ever pulled by an entire industry, her ARM was not tied to the prime rate or any other index, as adjustable-rate mortgages have traditionally been. Her rate simply adjusted periodically, ever upward. When it hit 14 percent, her social worker's salary could no longer cover the payments.

I watched this story unfold in court, from my seat in a bankruptcy judge's chair. While a Chapter 13 filing temporarily stopped the foreclosure on this woman's home, it did little more than buy a few months' time.

Under existing law, bankruptcy courts cannot modify the terms of home mortgages. To keep her home, this debtor needed to demonstrate sufficient income not only to make her ongoing payments at 14 percent but also to cover, during her five-year repayment plan, the payments she had defaulted on. Her proposed plan was clearly not feasible based on her salary, so I had no choice but to lift the stay and allow the foreclosure to continue.

Homeowners are the only ones who cannot modify the terms of their secured debts in bankruptcy. Corporate America flocks to bankruptcy courts to do precisely this -- to restructure and reamortize loans whose conditions they find onerous or can no longer meet. Airlines are still flying and auto parts makers still operating because they have used this powerful tool of the bankruptcy process. Lehman Brothers will surely invoke it. But when the bankruptcy code was adopted in 1979, the mortgage industry persuaded Congress that its market was so tightly regulated and conservatively run that it should be exempted from the general bankruptcy rules permitting modification.

How far we have come.

For more than a year, a number of legislators, academics and judges have advocated removing this ban on home mortgage modification to help stem the increasing number of foreclosures. I have twice participated in briefing sessions organized by the House Judiciary Committee, where I was lectured by lobbyists for the mortgage industry about the sanctity of contracts. I have listened to their high-priced lawyers make fallacious constitutional arguments based on discredited cases from the 1930s. (This is, incidentally, an industry that is not particularly concerned about its own contractual obligations as it tries, through various Treasury-aided programs, to stay afloat.)

Allowing modifications is a solid solution, as evidenced by my example. This homeowner could have restructured her loan to terms resembling those of a conventional mortgage. If the court found that the market value of her home had fallen below what she owed, the secured portion that must be repaid in full would be reduced to the house's actual value; otherwise, the amount to be repaid would stay the same. The interest rate would be adjusted to reflect the prevailing market. However, because this homeowner is a riskier borrower than most, I would have raised her rate to account for that increased risk, as Supreme Court precedent requires. Instead of 14 percent, the rate would probably have been in the high single digits. This homeowner -- with her steady income -- could have made the reduced payments.

Such a solution would have been better for everyone. Obviously, it would have been good for the homeowner and the community in which she lives. Instead of another abandoned house tied up in foreclosure, her residence would be owned by a taxpaying citizen. More important, it would have been good for the lender. Whatever unknown mortgage syndicates hold pieces of this loan, they are never going to get their 14 percent return. Instead, the total recovery will be limited to the proceeds from a foreclosure sale in a depressed market. Any deficiency owed by the homeowner will be discharged as part of her bankruptcy. No one has been able to explain to me why it is not better for mortgage holders to get a fair return of principal back, albeit at a lower interest rate, than to take a lump sum through foreclosure that is probably much less than the value of the note.

There is a simple answer to the frequent, hyperbolic assertion that such a process would be abused: Chapter 13 is no walk in the park. It requires public disclosure of every aspect of your life, examinations under oath by a trustee and creditors, allowing creditors to haul you into court on any objection, and relinquishment of control of your financial life for up to five years. If you falter, your case will be dismissed and you will lose the entire benefit of the bankruptcy law, including having your original contract terms reinstated. That is precisely why allowing mortgage modifications is such a good approach. It would elegantly separate those homeowners who desperately need to stay in their homes and have sufficient incomes to make reasonable payments from those investors who bet on lax regulation, easy credit and an appreciating market in buying residential properties. Those in the latter category will have no use for this process, but for the first category, it could be a powerful step back to financial stability.

*The writer is a judge with the U.S. Bankruptcy Court in the Eastern District of North Carolina.*

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**U.S. Economic Outlook for 2009**

**A Market Mandela**

By [Money Morning](http://www.moneymorning.com/), November 22, 2008

Loading...

If there’s a proverb that captures the outlook for the U.S. economy in the New Year, it’s the one that says: "It’s always darkest before the dawn."

Regardless of any formal announcement of whether or not [the United States[http://images.intellitxt.com/ast/adTypes/mag-glass_10x10.gif](http://www.istockanalyst.com/article/viewarticle/articleid/2824909)](http://www.istockanalyst.com/article/viewarticle/articleid/2824909) drops into an actual recession, the ongoing credit crisis guarantees a contraction of the American economy by virtually every measure we know. That period of darkness will be marked by a dramatic slowdown in economic activity, as well as by rising unemployment, additional declines in U.S. stock prices, and constant volatility. [And it could last as long as 12-18 months.](http://www.oxfonline.com/MMR/MMR0708deck.html?pub=MMR&code=WMMRJB05)

But when the dawn does come, it will be one to remember. If U.S. President-elect Barack Obama gets it right - and I have every reason to believe that he will - then investors will be presented with the greatest investment opportunity of our generation. At that point, shares of American companies will be at such low levels that wholesale buying by individuals, mutual funds, pension funds, institutional money managers, and foreign-controlled sovereign wealth funds, will generate gains that will not only make us whole, they will make us rich once again.

**A Market Mandela**

Creating an analysis of the U.S. economy’s outlook for the New Year is akin to creating a mandala, a geometric work of art whose pattern, symbolically or metaphysically, represents a microcosm of the universe from the human perspective. In some Buddhist temples, mandalas are made of tiny colored beads, painstakingly created by several monks as a form of meditation. In celebration of the ever-changing nature of the universe, the mandala is then joyously shaken by its creators, until it is once again nothing more than chaos embodied in a box of colored beads.

Regardless of the big picture, analysis of a mandala - or the economy - always starts at the center and emanates outward. With the U.S. economy, that centerpiece is credit. The credit crisis has shaken the complex mandala that is our economy and transformed the United States economy into chaos. It’s complex because this economic-forecast mandala derived its form from thousands of individual pieces - in the case of the economy, from scores of data points, many of which are currently dark and foreboding.

The credit crisis we are experiencing results from the contraction - or worse, the cessation - of lending. Under normal circumstances, institutions and markets freely facilitate capital movement between lenders and borrowers. But that’s not happening, now.

Because of a lack of transparency into the balance sheets of borrowers holding such complex and illiquid securities as collateralized debt obligations, credit-default swaps, and non-performing loans, and because of increasing recessionary fears affecting businesses and households, lenders don’t want to increase their loan exposure. Banks are holding onto the cash and liquid securities they control, using them as a cushion against their own potential losses. The U.S. Treasury Department’s direct-to-bank capital injections do not alter these banking realities. In fact, as a ***Money Morning*** investigative story recently demonstrated, instead of using these taxpayer-provided infusions to increase their lending, these banks are using the money to finance takeover deals.

**The Recipe for a Recession**

The National Bureau of Economic Research (NBER) will ultimately determine whether or not the United States is technically in a recession. The business-cycle dating committee of this privately run, nonprofit economic research group is right now studying five factors in an attempt to determine [if the United States has entered a recession](http://www.oxfonline.com/MMR/MMR0708deck.html?pub=MMR&code=WMMRJB05) and, if so, when that downturn started, ***MarketWatch.com*** reported. Those five factors are:

* Gross Domestic Product (GDP).
* Industrial production.
* Employment
* Income.
* Retail sales

Regardless of any formal announcement by the NBER of whether we’re in a recession, the credit crisis guarantees a general contraction of economic activity, by every measure.

"Any doubt that we’re officially in a recession can be put aside," Anthony Karydakis, former chief U.S. economist for JPMorgan Asset Management - and now a professor at New York University’s Stern School of Business - recently wrote in ***Fortune*** magazine. "The rapid deterioration of labor markets points to a sharp decline in hours worked and output in the fourth quarter. This is likely to lead to a decline in personal consumption to the tune of 5.0% or so for that period. Since [consumer spending] makes up about 70% of the economy, the stage has already been set for real GDP to shrink at a more than 4.0% rate in the fourth quarter."

Confirmation of that belief is evident by looking at each of the NBER’s five key indicators.

* **Gross Domestic Product (GDP)**: The U.S. Commerce Department estimated that the U.S. economy, as measured by GDP, rose 0.9% in the first quarter. In the second quarter, GDP advanced an estimated 2.8%. For the third quarter, GDP declined an estimated 0.3%. My own econometric models suggest that GDP actually contracted at a 1.5% pace in the third quarter and will decline another 2.75% in the fourth quarter. For the year, that would mean the U.S. economy actually fell 0.55%. The U.S. economy last posted a full year’s negative GDP in 1991, when it declined 0.2%. **Verdict: Recession**.
* **Industrial Production**: This measure of output by the nation’s factories and mines dropped 2.8% in September, and a very steep 6.0% in the third quarter. **Verdict: Recession.**
* **Employment**: The U.S. Bureau of Labor Statistics announced Friday that October’s unemployment rate was 6.5%, a jump of 0.4%, which was double what most economists expected, and also its highest level in 14 years. The economy has now lost a total of 1.2 million jobs since the beginning of the year, with nearly half of those losses occurring in the last three months alone, pointing to an acceleration in the pace of erosion in labor markets. Karydakis, the Stern School professor, wrote in ***Fortune***: "By way of comparison, during the 2001 recession and in the sluggish growth that followed in 2002-03, the unemployment rate reached a peak of only 6.3%, in June 2003.

We’ve already exceeded that mark and, given that we are still in the early phase of the current recession, the unemployment rate should be expected to push toward the 7.5% range - and possibly higher - during the next three months to six months." **Verdict: Recession.**

1. **Income**: Personal income increased $24.5 billion, or 0.2%, and disposable personal income (DPI) increased $25.7 billion, or 0.2%, in September. Personal consumption expenditures (PCE) decreased $33.6 billion, or 0.3%. Excluding the rebate payments made to U.S. taxpayers under the Economic Stimulus Act of 2008, DPI increased $30.3 billion, or 0.3%, in September, and increased $44.0 billion, or 0.4%, in August. **Verdict: Too close to call**.

* **Retail Sales**: October retail sales are coming in well below already-diminished expectations, and some reports have been downright depressing - including The Neiman Marcus Group Inc. -26.8%; The Gap Inc. -16%; The Nordstrom Group -15.7%; J.C. Penny Co. Inc. -13%; Kohl’s Corp. -9%;  Ltd. Brands Inc. -9%; Target Corp. Inc. -4.8%; and Wal-Mart Stores Inc. +2.4%. In a report last week, Moody’s Investors Service projected that the retail sector’s woes will continue into 2009 as consumers cut back on buying apparel, footwear and accessories "in order to save money for essentials." The [credit[http://images.intellitxt.com/ast/adTypes/mag-glass_10x10.gif](http://www.istockanalyst.com/article/viewarticlepaged/articleid/2824909/pageid/1)](http://www.istockanalyst.com/article/viewarticlepaged/articleid/2824909/pageid/1) rating firm said in a separate report that holiday spending "will prove even weaker than expected," amid October’s financial-market swoon. **Verdict: Recession.**

If U.S. exports are taken out of the GDP calculations going back to January, it’s apparent that there has been very little domestic growth in the economy. And when revisions are finalized in the next few months, we’ll be looking back at the recession that we’re all but certain is upon us right now. Until the credit markets are freed up and borrowers are extended credit at reasonable rates, it’s unlikely that credit, the centerpiece of the economy, will be anything other than a major cog in the wheel.

There are some signs of a thaw, but not anytime soon. The U.S. Federal Reserve’s lowering of the Fed Funds target rate to 1.0%, and coordinated rate reductions by the Bank of England and the European Central Bank, as well as other major worldwide central banks, may start to ease the stranglehold gripping the worldwide credit markets.

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*[Pavarësisht nga ndonjë njoftim zyrtar nëse kanë rënë apo jo Shtetet e Bashkuara në recesion aktual, kriza aktuale e kreditit garanton një tkurrje të ekonomisë amerikane nga pothuajse çdo masë që ne e dimë. Kjo periudhë e errësirës do të shënohet me një ngadalësim dramatik në aktivitetin ekonomik, si dhe nga rritja e papunësisë, rënie të tjera në çmimet e aksioneve dhe paqëndrueshmërinë e vazhdueshme. Kjo mund të zgjasë diku 12-18 muaj.*

*Krijimi i një analize për perspektivën e ekonomisë së SHBA-ve për Vitin e Ri është e ngjashme me krijimin e një 'Mandala', një vepër gjeometrike e artit, i cili model, simbolikisht ose metafizikisht, paraqet një mikrokozmos të universit nga perspektiva e njeriut. Në disa tempuj Budistë, mandalat janë bërë me rruaza të vockla me ngjyra, të krijuara tepër me kujdes nga disa murgj, si një formë e të menduarit (persiatjes). Në festimin e natyrës së universit, gjithnjë në ndryshim, 'Mandala' pastaj lëkundet me gëzim nga krijuesit e saj, derisa ajo, edhe një herë, s’është asgjë më shumë se një kaos, i mishëruar në një kuti me rruaza me ngjyra.*

*Pavarësisht nga pasqyrimi i madh, analiza e një ‘mandala’ - ose e ekonomisë - gjithmonë fillon nga qendra dhe vazhdon tutje. Në ekonominë amerikane, qendra e saj është krediti. Kriza e kredive ka tronditur (lëkundur) ‘Mandala’-n komplekse, që është ekonomia jonë, ndërsa ekonominë e Shteteve të Bashkuara e ka transformuar në kaos. Është komplekse, sepse ky ‘Mandala’ parashikim-ekonomik e derivon formën e tij nga mijëra pjesë të veçanta - në rastin e ekonomisë, nga rezultatet e të dhënave, shumë prej të cilave janë aktualisht të errëta dhe paralajmëruese. Kriza e kredive, që jemi duke e përjetuar, rezulton nga tkurrja - ose më keq, nga ndërprerja - e kreditimit (huadhënies). Në rrethana normale, institucionet dhe tregjet lirshëm ndihmojnë lëvizjen e kapitalit ndërmjet huadhënësve dhe huamarrësve. Por kjo tani nuk po ndodhë.*

*Për shkak të mungesës së transparencës në bilancet e huamarrësve që mbajnë letra të tilla me vlerë, komplekse dhe jolikuide, siç janë obligacionet kolaterale (collateralized debt obligations), svopet e kredisë të papaguar (credit-default swaps), dhe kreditë me probleme (non-performing loans), dhe për shkak të rritjes së frikës recesioniste që i prekë bizneset dhe familjet, huadhënësit nuk duan ta rrisin ekspozimin e tyre të kredisë. Bankat po mbahen mbi paratë e gatshme dhe mbi letrat me vlerë që ata kontrollojnë, duke përdorur ato si një mbrojtje kundër humbjeve të tyre të mundshme....*

*Politikëbërësit në FED do të sigurojnë që kjo është bërë në kohën e duhur,… "Megjithatë,"shtoi ai, “që është një çështje për të ardhmen; tani për tani, synimi i politikës duhet të jetë mbështetja e tregjeve financiare dhe ekonomisë.“*

***The Recipe\* for a Recession (Receta për Recesion)***

*Zyra Kombëtare për Kërkime Ekonomike [The National Bureau of Economic Research - (NBER)] do të përcaktojë përfundimisht nëse Shtetet e Bashkuara janë ose jo teknikisht në recesion. ‘*[*Business Cycle Dating Committee*](http://www.washingtonpost.com/ac2/related/topic/Business+Cycle+Dating+Committee?tid=informline)*’, i përbërë nga shtatë ekonomistë akademikë, vendos kur recesioni fillon dhe kur përfundon dhe konsiderohet si arbitër për gjëra të tilla.*

*‘*[*Business Cycle Dating Committee*](http://www.washingtonpost.com/ac2/related/topic/Business+Cycle+Dating+Committee?tid=informline)*,’ i drejtuar privatisht nga ky grup për hulumtime ekonomike, pa qëllime fitimi, që tani studion pesë faktorë me qëllim që të përcaktojë nëse Shtetet e Bashkuara ka hyrë në recesion dhe nëse po, kur ka filluar kjo rënie.*

*Këto pesë faktorë janë:*

* *Prodhimi i brendshëm bruto (PBB)*
* *Prodhimi industrial*
* *Punësimi*
* *Të ardhurat*
* *Shitjet me pakicë*

*Komiteti përcakton recesionin si "një rënie të konsiderueshme në aktivitetin ekonomik, i përhapur në gjithë ekonominë, që zgjatë më shumë se disa muaj, normalisht i dukshëm në prodhim, punësim, të ardhura reale dhe në tregues të tjerë."*

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http://www.bea.gov/

**U.S. Department of Commerce**

**Bureau of Economic Analysis**

***…*** [***Gross***](http://www.investorwords.com/2238/gross.html)[***Domestic***](http://www.investorwords.com/1539/domestic.html)[***Product***](http://www.investorwords.com/3874/product.html) ***(GDP) &*** [***Gross National Product (***](http://www.businessdictionary.com/definition/gross-national-product-GNP.html)***GNP***[***)***](http://www.businessdictionary.com/definition/gross-national-product-GNP.html)

GDP includes only [goods](http://www.investorwords.com/2209/goods.html) and services produced within the geographic boundaries of the U.S., regardless of the [producer](http://www.businessdictionary.com/definition/producer.html)'s [nationality](http://www.businessdictionary.com/definition/nationality.html). [GNP](http://www.investorwords.com/2186/GNP.html) doesn't include goods and services produced by foreign producers, but does include goods and services produced by U.S. [firms](http://www.investorwords.com/1967/firm.html) [operating](http://www.investorwords.com/3455/operating.html) in foreign countries

[GDP përfshinë vetëm mallrat dhe shërbimet e prodhuara brenda kufijve gjeografik të SHBA-ve, pa marrë parasysh kombësinë e prodhuesit. GNP nuk përfshinë mallrat dhe shërbimet të prodhuar nga prodhuesit e huaj, por përfshinë mallrat dhe shërbimet e prodhuara nga firma amerikane që veprojnë në vendet e huaja.]

The difference is that GDP defines its scope according to location, while GNP defines its scope according to ownership.

* GDP is product produced within a country's borders;
* GNP is product produced by *enterprises owned by a country's citizens*.

Dallimi është se GDP përcakton fushëveprimin e tij sipas vendit, ndërsa GNP përcakton qëllimin e saj në bazë të pronësisë.

* GDP është produkt i prodhuar brenda kufijve të një vendi;
* GNP është produkt i prodhuar nga ndërmarrjet në pronësi të qytetarëve të një vendi.

… GDP can be determined in three ways, all of which should in principle give the same result. They are:

* the product (or output) approach,
* the income approach, and
* the expenditure approach.

The most direct of the three is the product approach, which sums the outputs of every class of enterprise to arrive at the total. The expenditure approach works on the principle that all of the product must be bought by somebody, therefore the value of the total product must be equal to people's total expenditures in buying things. The income approach works on the principle that the incomes of the productive factors ("producers,” colloquially\*) must be equal to the value of their product, and determines GDP by finding the sum of all producers' incomes.

... BPB mund të përcaktohet në tri mënyra, të cilat, në parim, duhet të japin të njëjtin rezultat. Ato janë:

* qasja e produktit (ose outputit),
* qasja e të ardhurave, dhe
* qasja e shpenzimeve.

Qasja më e drejtpërdrejtë, nga të trija, është qasja e produktit, e cila përmbledh rezultatet e çdo klase të ndërmarrjes për të arritur në total.

Metoda e të ardhurave punon mbi parimin se të ardhurat e faktorëve produktivë ("prodhuesve“- popullorqe\*) duhet të jetë e barabartë me vlerën e produktit të tyre, dhe përcakton PBB duke gjetur shumën e të ardhurave të të gjithë prodhuesve.

Qasja e shpenzimeve punon mbi parimin se të gjitha produktet duhet të blihen nga dikush, pra vlera e produktit total duhet të jetë e barabartë me shpenzimet e përgjithshme të njerëzve në blerjen e gjërave.

… Qasja e shpenzimeve (vlera e produktit total duhet të jenë të barabartë me shpenzimet e përgjithshme të njerëzve në blerjen e gjërave) është përdorur për të identifikuar mallrat dhe shërbimet finale të blera nga personat, bizneset, qeveritë dhe të huajt.

Kjo arrihet me mbledhjen e komponentëve të shpenzimeve finale:

* 1. Shpenzimet e konsumit personal [Personal consumption expenditures]
  2. Bruto investimet vendore private fikse [Gross private fixed investment],
  3. Ndryshimi në inventarin privat [Change in private inventories],
  4. Neto eksporti i mallrave dhe shërbimeve [Net exports of goods and services],
  5. Shpenzimet qeveritare për konsum dhe investime bruto [Government consumption expenditures and gross investment].

1. Shpenzimet e konsumit personal [Personal consumption expenditures] i cili matë vlerën e mallrave dhe shërbimeve të blera nga persona që janë: individët, institucionet jofitimprurëse që kryesisht u shërbejnë familjeve, fondet private të pasiguruara të mirëqenies dhe fondet private të besimit.
2. Bruto investimet vendore private fikse [Gross private fixed investment], i cili matë shtesat dhe zëvendësimet e stoqeve të aseteve fikse private, pa zbritje të amortizimit.
   1. Investimet fikse jorezidente masin investimet e bizneseve dhe institucioneve jofitimprurëse në strukturat jorezidente dhe në pajisje dhe software.
   2. Investimet fikse rezidente masin investimet e bizneseve dhe familjeve në strukturat dhe pajisjet rezidenciale, kryesisht ndërtimet e reja të familjeve të vetme (single-family) ose familjeve më të mëdha (multifamily units).
3. Ndryshimi në inventarin privat [Change in private inventories], i cili matë ndryshimin në vëllimin fizik të inventarit, në pronësi nga biznesi privat, i vlerësuar me çmimet mesatare të periudhës.
4. Neto eksporti i mallrave dhe shërbimeve [Net exports of goods and services], i cili është llogaritur si eksporte minus importe.
   1. Eksportet përbëhen nga mallrat dhe shërbimet që janë të shitur ose transferuar nga banorët (rezidentet) e SHBA tek banorët (rezidentet) e huaj.
   2. Importet, të cilat janë zbritur në llogaritjen e GDP-së, përbëhet nga mallrat dhe shërbimet që janë shitur ose transferuar nga banorë të huaj tek banorët e SHBA-së.
5. Shpenzimet qeveritare për konsum dhe investime bruto [Government consumption expenditures and gross investment], përbëhen nga dy komponentë:
   1. Shpenzimet aktuale të konsumit përbëhen nga shpenzimet e qeverisjes së përgjithshme, në mënyrë që të prodhojnë dhe të ofrojnë mallra dhe shërbime për publikun;
   2. Investimet bruto përbëhen nga shpenzimet e qeverisjes së përgjithshme dhe qeverisjes së ndërmarrjeve (publike) për asetet fikse nga të cilat përfitojnë publiku, ose që asistojnë agjencitë qeveritare në aktivitetet e tyre të prodhimit.\*

* Pra, GDP-ja është e barabartë me:
  + shpenzimet per konsum personal,
  + plus bruto e investimeve private vendase fikse,
  + plus ndryshimi ne inventarin privat,
  + plus shpenzimet e konsumit të qeverisë dhe investimet bruto,
  + plus eksportet,
  + minus importet.

Importet janë të zbritura në këtë llogaritje, sepse ato janë të përfshira tashmë në komponentë të tjera të shpenzimeve përfundimtare.

Për shembull, shpenzimet e konsumit personal përfshijnë shpenzimet për makinat e importuara si dhe për makinat e prodhuara në vend. Kështu, në mënyrë që të matet plotësisht prodhimtaria vendase, importet janë të zbritshme në llogaritjen e GDP-së.

D.m.th. GDP-ja është e barabartë me:

1. Shpenzimet private për konsum (private consumption expenditures);
2. Bruto investimet private vendore (gross private domestic investment);
3. Blerjet qeveritare të produkteve dhe shërbimeve (government purchases of goods and services);
4. Eksportet neto (net exports).

[Simon Kuznets](http://en.wikipedia.org/wiki/Simon_Kuznets) in his very first report to the US Congress in 1934 said:[[3]](#footnote-3)...the welfare of a nation can, therefore, scarcely be inferred from a measure of national income... [mirëqenia e një kombi mund, pra, pothuaj të dëshmohet (nxjerrët) nga masa e të ardhurave kombëtare]

In 1962, Kuznets stated[[4]](#footnote-4): … Distinctions must be kept in mind between quantity and quality of growth, between costs and returns, and between the short and long run. Goals for more growth should specify more growth of what and for what [Dallimet duhet të merren parasysh në mes të sasisë dhe cilësisë së rritjes, midis shpenzimeve dhe kthimit dhe midis një ecjeje (periudhe) të shkurtër dhe të gjatë. Objektivat për më shumë rritje duhet të specifikojnë rritjen më të madhe të diçkaje dhe për çfarë]

**Të ardhurat kombëtare (National Income)** paraqesin shumën e të gjitha llojeve të pagesave kryesore (factor payments), siç janë:

* Pagat javore dhe mujore (wages and salaries);
* Dividendët (dividends);
* Profitet e ndërmarrjeve jokorporative (profits of unincorporated enterprises);
* Interesi (interest);
* Renta (rent).

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**G-20 MINISTERIAL MEETING in Gyeongju, South Korea, Oct. 23, 2010**

http://www.telegraph.co.uk/23 10 2010/

The G20 Finance Ministers and Central Bank Governors, met with a sense of urgency to fully address the economic challenges facing us today in preparation for the Seoul Summit (Nov. 11-12, 2010).

The Group of 20 has reached agreement on reform of the International Monetary Fund, managing director Dominique Strauss-Kahn said on Saturday, describing it as a 'very historic' deal.

'It's the biggest reform ever in the governance of the IMF,' Mr Strauss-Kahn told reporters, referring to moves to give developing nations like China a greater say in the fund's management.

'It's a very historic agreement.' Strauss-Kahn was speaking on the sidelines of a G-20 finance ministers' meeting, which is preparing for a summit in Seoul next month.

He said Europe has agreed to give up two seats on the IMF board to accommodate developing nations. Brazil, Russia, India and China would be among the top 10 IMF shareholders.

The G-20 also reached agreement on tighter regulation of banks and big finance firms blamed for triggering the global economic crisis, a senior South Korean delegate said.

'Agreement was reached on financial regulatory reform during the fourth session that just ended,’…

In a final statement after two days of heated negotiation, the G20 said it would “move towards more market-determined exchange rate systems” and that the International Monetary Fund would “deepen” its supervision of exchange rates.

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**History: Meetings yet to reach the peak of achievement**

By Chris Giles, *02 11 2011*, Financial Times

Living up to being “the premier global economic forum” has proved challenging for the Group of 20 ever since its members elevated the group to that role in 2009.

With the eurozone sovereign debt crisis threatening the global economic order, the Group has perhaps its most difficult challenge yet at the Cannes summit. The question is whether it will succeed or squander the chance to demonstrate its global importance.

Before 2008, the G20 was merely an annual gathering of finance ministers established after the Asian financial crisis a decade earlier and few people expected much from the gathering. But after Lehman Brothers collapsed in September 2008, a first leaders’ summit was hastily arranged for that November.

But before the G20 could meet in 2008, the Group of Seven finance ministers took [all the difficult decisions](http://www.g8.utoronto.ca/finance/fm081010.htm) – ensuring there would be no more bank failures, a guarantee of liquidity to financial markets, a decision to recapitalise banks and bullet-proof depositor protection – leaving the G20 to focus on [additional matters](http://www.g20.utoronto.ca/2008/2008declaration1115.html) such as a pledge to complete the still-unfinished Doha trade round by the end of 2008 and a half-hearted commitment to fiscal stimulus.

*The Cannes summit therefore has more of a challenge than usual in diffusing a current crisis that threatens the global economy…*

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**The eurozone isn't Europe. Let the IMF sort this debacle**

*Summits only expose politicians' impotence. Default will be decided by markets, and won't mean a state has to quit the EU*

[David Owen](http://www.guardian.co.uk/profile/david-owen)   
[guardian.co.uk](http://www.guardian.co.uk/), Monday 7 November 2011

[A eurozone may survive](http://www.guardian.co.uk/business/blog/2011/nov/07/greece-coalition-government-george-papandreou-crisis?CMP=NECNETTXT8187), but it will not be the present 17 member state eurozone. What will emerge, *if it is to survive*, *will be smaller and more focused around German financial and monetary disciplines*. There should no longer be dramatic EU summits with Nicolas Sarkozy, accompanied by a reluctant (*ngurruese*) Angela Merkel, creating an impression of progress soon to be followed by the grim realisation that little has changed. For instance, *the announced 50% haircut in Greek government bonds* *has not yet been voluntarily accepted*. All too little of the actual detail, whether participation ratios or other technicalities, has been agreed. As always, political headlines have shown little understanding of market realities.

Even changes of government [now in Greece](http://www.guardian.co.uk/world/2011/nov/07/greek-leaders-unity-government?newsfeed=true), [soon in Spain](http://www.guardian.co.uk/commentisfree/2011/nov/06/spain-election-zapatero) and [probably in Italy](http://www.guardian.co.uk/business/blog/2011/nov/07/greece-coalition-government-george-papandreou-crisis), important though they will be for domestic decision-making, *will not be the determining factors*. *Global market realism will from now on decide whether countries will default*.

**The EU must**, first and foremost, **end the pretence (*shtrirje*) and establish that all 27 members are free to enter or leave the eurozone while staying in the EU**.

Then it must **introduce a number of practical revisions** to **introduce** [**Exchange Rate Mechanism II**](http://en.wikipedia.org/wiki/European_Exchange_Rate_Mechanism) **into the criteria for entering the eurozone;**

Formalise the Swedish position outside the eurozone;

Create greater cohesion by authorising the president of the European council, as has been requested by the eurozone countries, **to chair the informal meeting of the Euro group** but **also informal meetings of a new non-euro group.**

It must also introduce within the Euro group **a more disciplined framework** **for handling fiscal and debt policies**, all of which are ***compatible with existing EU monetary objectives***.

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**Financial crisis: Punishment Europe**

Editorial[guardian.co.uk](http://www.guardian.co.uk/), Monday 7 November 2011

**The era in which** [**Europe**](http://www.guardian.co.uk/world/europe-news) **was a synonym for prosperity is coming to an end**. **Governments** who **could once** tell their electorates that the [European Union](http://www.guardian.co.uk/world/eu) – although it might be problematic in other ways – **brought wealth and jobs**, **are now having to tell them the opposite**. ***It has become increasingly difficult for them to blame the continent's difficulties on others or to pretend that it will soon emerge from its troubles.***

**Every country has a station on this cross**. ***The Greeks***, torn (*shqyhe*n) between self-pity (*keqardhje ndaj vetvetes*) and the awareness that **they have tipped the whole union into crisis**, now face the grim prospect of forming an administration that will have no story to tell its citizens except that *they must suffer for past sins* (mekate). ***The Italians*** are miserably contemplating the price of their years of dalliance (*defrim*) with the irresponsible and opportunistic Silvio Berlusconi, a long-running show on which the curtain is likely to crash down any time now. **The French**, who had aspired to lead in this crisis, yesterday brought in an austerity (*ashper*) plan which, although it has already been criticised for lack of substance, was marked by a statement by the prime minister, [Francois Fillon](http://www.bbc.co.uk/news/business-15620652), that bankruptcy was "*no longer an abstract*".

**The real problem** is not so much that Europe is bust (*deshtim*), but rather that ***Europe's political structures have not proved able to co-ordinate the deployment of the financial power of the continent's north on behalf of its south***.

With Mr Berlusconi still boasting of [Italy](http://www.guardian.co.uk/world/italy)'s [bustling restaurants](http://latimesblogs.latimes.com/world_now/2011/11/silvio-berlusconi-italy-confidence-vote.html), it is understandable enough if the hard-working citizens of Bremen and Bonn are reluctant (*ngurues*) to write him a blank cheque.

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**Ndërkombëtarizimi dhe globalizimi i tregjeve financiare**

JEFFREY D. SACHS, Profesor i ekonomisë në Columbia University

“Kriza ekonomike globale do të jetë *me ne* për një gjeneratë të tërë, e jo vetëm për një apo dy vjet, pasi që ajo paraqet tranzicion drejt qëndrueshmërisë.

Pamjaftueshmëria e burmimeve dhe dëmet e shkaktuara si pasojë e ndryshimeve klimatike… i ka kontribuar destabilizimit të ekonomisë botërore.

Çmimet e ngritura të ushqimit dhe burimeve energjetike, …, kanë pasur një rol të madh në destabilizimin e tregjeve financiare dhe madje edhe gjendjes politike.

Dalja nga kriza globale: ndërtimi i infrastrukturës që u përgjigjet nevojave të shekullit XXI.

Ka ardhur koha që bota t’i bashkojë përpjekjet për jetësimin e këtyre projekteve. Por një gjë e tillë nuk është e lehtë të bëhet. Pse? Sepse, pjesa më e madhe e investimeve në infrastrukturë kërkojnë udhëheqës të sektorit publik që janë të gatshëm të lidhin partneritete me sektorin privat.

Zakonisht sektori publik duhet të hyjë në marrëveshje kontraktuare me firmat private, …, mirëpo duhet të ketë qasje të drejtë në rregullimin e pozitës si monopol ose me koncesion.

Qeverive në përgjithësi u mungon kapaciteti i nevojshëm teknik për projektet e tilla, duke i hapur kështu rrugë favorizimit dhe korrupsionit gjatë dhënies së kontratave të mëdha.

Akuzat e tilla rëndojnë mbi qeveritë edhe kur nuk janë të vërteta, ndonëse një gjë e tillë është shumë e rrallë. Prandaj, qeveritë duhet t’i forcojnë ministritë e tyre të infrastrukturës (përfshirë: teknologjitë e burimeve energjetike, rrugëve, ujit dhe sistemit sanitar), si dhe bankat e tyre për zhvillim nacional, në mënyrë që të përgatisin projekte afatgjata infrastrukturore.

Aftësia për ta përballuar krizën në mënyrë konstruktive përmes partneriteteve të sektorit publik-privat do ta përcaktojë suksesin e shteteve dhe rajoneve.

Është interesante se edhe SHBA-ja do ta krijojë Bankën Amerikane për Infrastrukturë për të parën herë.

Takimi i G20[[5]](#footnote-5) në Londër, më 2 prill, na jep shpresë për një përpjekje të vërtetë globale për riparimin e ekonomisë botërore. Nëse nuk i tejkalojmë sfidat, kriza do ta rrezikojë botën për shumë vite të ardhshme (J. Sachs).

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**Financial innovation**

**Inovacionet financiare**

**James C. Van Horne**

Professor Van Horne has focused his research on issues in corporate finance, valuation, and on the term structure of interest rates. His some 60 articles in finance, economic, and management journals often involve empirical inquiry. He is the author of five books, three of which - *Financial Management and Policy*, 12th edition; *Financial Market Rates and Flows*, 6th edition; and *Fundamentals of Financial Management*, 12th edition, (coauthor) - have been widely used as texts in the U.S.A. and abroad.

Sipas autorit *James Van Horne* (1985), *inovacionet financiare* definohen si produkte dhe procese të reja, të cilat, në sensin operacioanl, tregjet financiare i bëjnë *më efiçiente* dhe *më komplete*.

Hence[[6]](#footnote-6), we define a financial innovation as something new that reduces costs, reduces risks, or provides an improved product/service/instrument that better satisfies financial system participants‘ demands.

Financial innovations can be grouped as:

* new products (e.g., subprime mortgages: Subprime mortgage lending, broadly defined, relates to borrowers with poor credit histories) or services (e.g., Internet banking);
* new production processes (e.g., credit scoring); or
* new organizational forms (e.g., Internet-only banks).

Recent service innovations primarily relate to enhanced account access and new methods of payment – each of which better meets consumer demands for convenience and ease.

* ***Debit Cards.*** *Debit cards are essentially “****pay-now****” instruments linked to a checking* account whereby transactions can happen either instantaneously using online (PIN-based) methods or in the near future with offline (signature based) methods.
* ***Online Banking.*** *As households and firms rapidly adopted Internet access during the late-* 1990s, **commercial banks established an online presence**. According to DeYoung (2005), the first bank websites were launched in 1995; and by 2002 nearly one-half of all U.S. banks and thrifts operated transactional websites. As of 2007, bank call report data suggests that 77.0 percent of commercial banks offer transactional websites (and these banks control 96.8 percent of commercial bank deposits).
* ***Prepaid Cards.*** *As the name implies, prepaid cards are instruments whereby cardholders* “**pay early**” and set aside funds in advance for future purchases of goods and services. (By contrast, debit cards are “pay-now”, and credit cards are “pay later”.)

***… Inovacionet financiare***

**Roy E. Bailey, The Economics Of Financial Markets, Cambridge University Press, 2005**

*Derivatives markets*. Corresponding to most of the above categories are derivative, or synthetic, securities. They are ‘derivative’ in the sense that their payoffs are defined in terms of the payoffs on an underlying asset or assets. The underlying asset could itself be a derivative, so that a whole hierarchy of such instruments emerges. Almost all derivatives are variants of two generic contracts

[Tregjet derivative, ose tregjet e letrave me vlerë sintetike. Ata janë "të derivuara" në kuptimin që fitimet (payoffs) e tyre janë të përcaktuara në terme të fitimeve nga një aktiv ose asete te caktuara (kryesore). Aseti themelor mund të jetë vetë një derivat, prandaj për këtë ka lindur një hierarki e tërë e instrumenteve të tilla. Pothuajse të gjitha derivatet janë variante të dy kontratave gjenerike]

* (a) *Forward agreements*. These are contracts in which the parties agree to execute an action (typically, the exchange of a specified amount of money for a specified amount of some ‘good’) at a stipulated location and date in the future. For example, a forward contract might specify the delivery of 5000 bushels of domestic feed wheat to a grain elevator in Chicago, six months from the date of the agreement, at a price equal to $3.50 per bushel. A *futures* contract is a special type of forward contract designed to allow for trading in the contract itself. *Repo* contracts are combinations of loans and forward agreements. *Swaps* are sequences of forward contracts packaged together.
* [(a) **Marrëveshjet Forvard**. Këto janë kontrata në të cilat palët bien dakord për të ekzekutuar një veprim (në mënyrë tipike, shkëmbimi i një sasi të caktuar parash për një shumë të specifikuar të disa 'të mirave') në një vend dhe datë të përcaktuar në të ardhmen. Për shembull, një kontratë Forvard mund të specifikojë dërgimin e 5000 bushelëve grurë vendor për ushqim tek një depo drithi në Çikago, gjashtë muaj nga data e marrëveshjes, me një çmim të barabartë me 3,50 $ për bushel (shinik). Kontrata Fjuçers është një lloj special i kontratës Forvard, e projektuar për të lejuar tregtimin e vetë kontratës. Repo kontratat janë kombinime të huave dhe marrëveshjeve Forvard. Svopet janë sekuenca të kontratave Forvard, të paketuara së bashku.]
* (b) *Options*. Options are contracts for which the holder has the right, but not the obligation, to execute a specified action at an agreed date, or over a range of dates. For example, an option might stipulate that its owner can purchase 100 IBM ordinary shares for $220 per share at any time prior to the following 30 September. Many sorts of option contracts are traded. For example, *options on futures* are options to purchase or sell futures contracts; *swapoptions* are options on swap contracts. *Exotic* options encompass a variety of contracts involving non-standard terms for their execution.
* [(b) **Osionet**. Opsionet janë kontrata për të cilat bartësi (holder) ka të drejtë, por jo detyrim, për të ekzekutuar një veprim të caktuar, në një datë të rënë dakord, ose mbi një gamë të datave. Për shembull, një Opsion mund të përcaktoj që pronari i saj mund të blejë 100 aksione të zakonshme të IBM për 220 $ për aksion, në çdo kohë, para datës 30 shtator. Shumë lloje të kontratave Opsion janë të tregtuara. Për shembull, Opsionet në Fjuçersa janë mundësi (opsione) për të blerë ose shitur kontrata Fjuçers; Swap-opsionet janë opsione në kontratat swop. Opsionet ekzotike përfshijnë një varietet të kontratave që përfshijnë terma jo-standarde për ekzekutimin e tyre]

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<http://www.investopedia.com/articles/07/sri-two-styles.asp>

**Eric Petroff, “Change The World One Investment At A Time”**

Eric Petroff is the director of research of Wurts & Associates, an institutional consulting firm advising nearly $40 billion in client assets.

Le të themi se ju doni të ndryshoni botën, por ju nuk keni shumë besim në mitingje të protestës apo në politikanë. Çfarë mund të bëjë një person normal, me një punë me kohë të plotë, që botën tonë ta bëjë një vend më të mirë?

Investimi i përgjegjshëm shoqëror – IPSH (Socially Responsible Investing - SRI), pikërisht kjo mund të jetë përgjigjja.

IPSH ju lejon që të shprehni pikëpamjet tuaja politike dhe etike përmes formatimit të investimit tuaj. Në thelbin e këtij koncepti janë dy stile konkurruese.

* + **Njëri stil është përjashtues**: ju e krijoni një listë të kompanive në të cilat ju nuk do të investoni për arsye morale, dhe i përjashtoni ato nga portofoli i juaj.
  + **Stili i dytë, më proaktiv, është gjithëpërfshirës**. Ajo përfshin investimin selektiv në kompanitë që ndajnë me ju besimet tuaj kryesore, ose investimin e qëllimshëm në kompanitë që i shkelin ato (besime), kështu që ju mund të bëheni aksionar dhe të votoni për të ndryshuar politikën e kompanisë.

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**Financial Markets: Random, Cyclical Or Both?**

Tregjet financiare: të rastësishme, ciklike apo të dyja?

**By Paul Kosakowski**

[Paul Kosakowski began investing in 1998 and analyzes the markets from a perspective that includes both Cycles and Elliot Wave analysis combined with traditional technical indicators, such as MACD and Stochastics.]

**A mundet një investitor të fitojë një avantazh nga tregjet?** Varet nga ajo çka ju kërkoni.

Ka një kohë të gjatë që diskutohet rreth asaj nëse lëvizjet në tregje a janë të rastit apo janë ciklike. Secila palë thotë se ka të dhëna për të provuar se të tjerët janë të gabuar.

* Ithtarët e ecjes së rastësishme (random walk) besojnë se tregjet e ndjekin rrugën e efektshme, ku nuk ka formë të analizës që mund të ofrojë një avantazh statistikor.
* Në anën tjetër, që të dy analizat, fundamentale dhe teknike, besojnë se ka një ritëm të caktuar në tregje që një analizë e kujdesshme mund të ndihmojë për të zbuluar, duke siguruar të paktën një avantazh të lehtë.

Teoria e tregut efiçient

Aspekti themelor i ithtarëve të ecjes së rastit është Hipoteza e tregut efiçient ([efficient market hypothesis](http://www.investopedia.com/terms/e/efficientmarkethypothesis.asp)-EMH). Ideja e hipotezës së tregut efiçient – HTE qëndron në atë se i gjithë informacioni i njohur është tashmë i vlerësuar në strukturën e çmimit të letrave me vlerë. Kështu që, asnjë informacion i njohur nuk mund t’i ndihmojë ndonjë investitori për të fituar një avantazh mbi tregun.

Analiza themelore

Analiza themelore është një studim i gjendjes aktuale të kompanisë në lidhje me potencialin e saj për qëndrueshmërinë dhe rritjen e ardhshme. Një analist kryesor mund të vendos të blejë aksioneve, nëse ai ose ajo e sheh se kjo kompani ka një Bilanc me borxh të ulët dhe me të ardhura mbi mesataren e rritjes së aksioneve.

Analiza teknike

Analiza teknike sillet rreth besimit se sjellja e investitorëve përsëritet me kalimin e kohës. Nëse dikush mund t’i njohë këto modele, ai ose ajo do të mund të përfitojë prej tyre, duke i përdorur ato për të parashikuar potencialisht lëvizjen e çmimeve në të ardhmen.

Debati në mes të atyre që besojnë në një treg efikas dhe atyre që besojnë se tregjet e ndjekin një rrugë disi ciklike do të vazhdojë me gjasë për një kohë në të ardhmen. Ndoshta përgjigjja qëndron diku në mes. Tregjet mund të jenë vërtetë ciklike me elemente që janë të rastësishme gjatë rrugës.

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<http://www.investopedia.com/printable.asp?a=/articles/04/071304.asp>

**Getting To Know The Money Market (Të njohurit e tregut të parasë)**

by Jason Van Bergen

Shanset janë që ju e keni dëgjuar termin më përpara, por çka pikërisht është tregu i parasë? Ai është vend i organizuar në të cilën pjesëmarrësit mund të japin dhe të marrin hua në shuma të mëdha parash për një periudhë prej një viti ose më pak.

Ndërsa kjo është një arenë shumë efikase për bizneset, qeveritë, bankat dhe institucionet e tjera të mëdha të krijojnë fonde, tregu i parasë gjithashtu ofron një shërbim të rëndësishëm për individët që duan të investojnë shuma të vogla duke shijuar ndoshta likuiditetin më të mirë dhe sigurinë që gjendet kudo.

Këtu ne i trajtojmë në disa nga llojet më të njohura të instrumenteve të tregut të parasë dhe benefitet (të mirat) që ato ofrojnë për investuesit individualë.

Individët do të investojnë në tregun e parasë për shumë arsye të njëjta sikurse që një biznes apo qeveri do të japë ose marrë hua fondet në tregun e parasë: ndonjëherë nevoja për fonde nuk përputhet me pasjen e tyre. Për shembull, nëse ju i gjeni, ju keni një shumë të caktuar parash që ju nuk keni nevojë menjëherë për to (për të paguar borxhin, për shembull), atëherë ju mund të zgjidhni për të investuar këto fonde përkohësisht, deri sa ju duhen për të bërë disa gjëra të tjera, investime afatgjata, ose blerje. Në qoftë se ju vendosni për t’i mbajtur këto fonde në të holla, kostoja oportune që ju të pësoni është interesi që ju mund të kishit marrë nga investimi i fondeve tuaja. Nëse ju i investoni fondet tuaja në tregun e parasë, ju mund, shpejt dhe me lehtësi, të siguroni këtë interes.

Atributet më të mëdha që do ta tërheqin një investitor për instrumente afatshkurtra të tregut të parasë janë siguria dhe likuiditeti i lartë.

Instrumentet e tregut të parasë kanë afate maturimi që shkojnë nga një ditë në një vit, por ato janë zakonisht tre muaj ose më pak. Për shkak se këto investime janë të lidhura me tregje sekondare - masive dhe aktive - ju pothuajse gjithmonë mund t’i shisni këto para afatit të maturimit, megjithëse me çmimin e heqjes dorë nga interesi që do të kishit fituar me mbajtjen e tyre deri në afatin e maturimit.

Përmes tregut të parasë, pjesëmarrësit në tregun financiar, ekonomia si tërësi, që nga ndërmarrjet e deri te qeveritë në nivele të ndryshme, i realizojnë disa qëllime fundamentale të politikave ekonomike të çdo vendi:

1. mundësohet mbajtja e likuiditetit të pjesëmarrësve në jetën ekonomike;
2. sigurohet mundësia e financimit të buxhetit qeveritar përmes politikës së huasë publike;
3. konsolidohet ruajtja e stabilitetit makroekonomik;
4. ofrohet një siguri, në nivel kombëtar, se do të ketë para të shëndetshme (para joinflatore);
5. mirëmbahet stabiliteti i normës së kamatës, çmimeve, kursit devizor, etj..

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**Tregjet e kapitalit**

**Fixing America’s Broken Housing Market**

[Joseph E. Stiglitz](http://www.project-syndicate.org/contributor/184)

08-09-2010

**Një shenjë e sigurtë e një ekonomie tregu se është jofunksionale është vazhdimësia e papunësisë.** Në Shtetet e Bashkuara sot, një nga gjashtë punëtorë të cilët do të donin një punë me orar të plotë, nuk mund të gjejnë një të tillë. Kjo është një ekonomi me nevoja shumë të mëdha të paplotësuara dhe burime të gjera të pashfrytëzuara.

Tregu i shtëpive të banimit është një anomali tjetër e SHBA-ve: ka me qindra e mijëra njerëz të pastrehë (më shumë se 1.5 milionë amerikanë kanë kaluar, të paktën, një natë pa strehë, në vitin 2009), ndërsa me qindra e mijëra shtëpi janë të lira (pa banorë).

Në të vërtetë, shkalla e humbjes së të drejtës mbi pronën - në shtëpi banimi (foreclosure) është në rritje.

Dy milionë amerikanë i kanë humbur shtëpitë e tyre, në 2008 dhe 2.8 milionë më shumë në 2009, por numri pritet të jetë edhe më i lartë në vitin 2010.

Tregjet tona financiare kanë përfomuar dëshpërimisht keq – ndërkaq tregjet “racionale"nuk japin hua për njerëzit që nuk mund ose nuk do të paguajnë - dhe ende drejtuesit e këtyre tregjeve ishin të shpërblyer sikur të ishin gjeni financiarë.

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**Build America Borrowers Race Countdown Clock Before Year-End: Muni Credit**

By Ashley Lutz

Dec 11, 2010

From California to [New York](http://www.bloomberg.com/apps/quote?ticker=STONY1:US), issuers are rushing to take advantage of Build America Bond subsidies by accelerating sales of the securities before the program ends.

States and municipalities were set to sell more than $3 billion of the securities next week, according to data compiled by Bloomberg late yesterday. In Chicago, San Francisco, Los Angeles and New York state, issuers said they’re hurrying to market before the program expires Dec. 31, absent an extension.

“We were trying to beat the clock, so we fast-tracked the financing to take advantage,” Charles Perl, deputy chief financial officer of the [San Francisco Public Utilities Commission](http://sfwater.org/), said yesterday. The district moved up a planned $350 million Build America debt sale to next week, months ahead of its previous schedule, he said yesterday in an interview.

The U.S. government pays 35 percent of the interest costs for the bonds to help communities build roads, bridges and other infrastructure.

The securities pay taxable interest, making them similar to corporate debt and attractive to a broader market compared with tax-exempt municipal bonds. The program began as part of President [Barack Obama](http://search.bloomberg.com/search?q=Barack%20Obama&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1&partialfields=-wnnis:NOAVSYND&lr=-lang_ja)’s economic-stimulus package to spur public works projects by driving down borrowing costs.

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**The role of stock exchanges (Roli i Bursave)**

1. **Raising capital for businesses** (*rritje e kapitalit për biznese*)
2. **Mobilizing savings for investment** (*mobilizim i kursimeve për investime*)
3. **Facilitating company growth** (*lehtësim i rritjes së kompanisë*)
4. **Profit sharing** (*pjesëmarrje në fitim*)
5. **Corporate governance** (*qeverisje korporative*)
6. **Creating investment opportunities for small investors** (krijim i mundësive investive për investitorët e vegjël)
7. **Government capital-raising for development projects** (*fonde kapitale qeveritare për projekte zhvillimore*)
8. **Barometer of the economy** (*barometër i ekonomisë*)

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**A New World Architecture**

[George Soros](http://www.project-syndicate.org/contributor/27)

04 11 2009

NEW YORK – Twenty years after the fall of the Berlin Wall and the collapse of communism, the world is facing another stark choice between two fundamentally different forms of organization: **international capitalism** and **state capitalism**. The former, represented by the United States, has broken down, and the latter, represented by China, is on the rise. Following the path of least resistance will lead to the gradual disintegration of the international financial system. A new multilateral system based on sounder principles must be invented.

While international cooperation on regulatory reform is difficult to achieve on a piecemeal basis, it may be attainable in a grand bargain that rearranges the entire financial order. A new Bretton Woods conference, like the one that established the post-WWII international financial architecture, is needed to establish new international rules, including treatment of financial institutions that are too big to fail and the role of capital controls. It would also have to reconstitute the International Monetary Fund to reflect better the prevailing pecking order among states and to revise its methods of operation.

In addition, a new Bretton Woods would have to reform the currency system. The post-war order, which made the US more equal than others, produced dangerous imbalances. The dollar no longer enjoys the trust and confidence that it once did, yet no other currency can take its place.

The US ought not to shy away from wider use of IMF Special Drawing Rights. Because SDRs are denominated in several national currencies, no single currency would enjoy an unfair advantage.

The range of currencies included in the SDRs would have to be widened, and some of the newly added currencies, including the renminbi, may not be fully convertible.  This would, however, allow the international community to press China to abandon its exchange-rate peg to the dollar and would be the best way to reduce international imbalances. And the dollar could still remain the preferred reserve currency, provided it is prudently managed.

One great advantage of SDRs is that they permit the international creation of money, which is particularly useful at times like the present. The money could be directed to where it is most needed, unlike what is happening currently. A mechanism that allows rich countries that don’t need additional reserves to transfer their allocations to those that do is readily available, using the IMF’s gold reserves.

Reorganizing the world order will need to extend beyond the financial system and involve the United Nations, especially membership of the Security Council. That process needs to be initiated by the US, but China and other developing countries ought to participate as equals. They are reluctant members of the Bretton Woods institutions, which are dominated by countries that are no longer dominant. The rising powers must be present at the creation of this new system in order to ensure that they will be active supporters.

The system cannot survive in its present form, and the US has more to lose by not being in the forefront of reforming it. The US is still in a position to lead the world, but, without far-sighted leadership, its relative position is likely to continue to erode. It can no longer impose its will on others, as George W. Bush’s administration sought to do, but it could lead a cooperative effort to involve both the developed and the developing world, thereby reestablishing American leadership in an acceptable form.

The alternative is frightening, because a declining superpower losing both political and economic dominance but still preserving military supremacy is a dangerous mix. We used to be reassured by the generalization that democratic countries seek peace. After the Bush presidency, that rule no longer holds, if it ever did.

In fact, democracy is in deep trouble in America. The financial crisis has inflicted hardship on a population that does not like to face harsh reality. President Barack Obama has deployed the “confidence multiplier” and claims to have contained the recession. But if there is a “double dip” recession, Americans will become susceptible to all kinds of fear mongering and populist demagogy. If Obama fails, the next administration will be sorely tempted to create some diversion from troubles at home – at great peril to the world.

Obama has the right vision. He believes in international cooperation, rather than the might-is-right philosophy of the Bush-Cheney era. The emergence of the G-20 as the primary forum of international cooperation and the peer-review process agreed in Pittsburgh are steps in the right direction.

What is lacking, however, is a general recognition that the system is broken and needs to be reinvented. After all, the financial system did not collapse altogether, and the Obama administration made a conscious decision to revive banks with hidden subsidies rather than to recapitalize them on a compulsory basis. Those institutions that survived will hold a stronger market position than ever, and they will resist a systematic overhaul. Obama is preoccupied by many pressing problems, and reinventing the international financial system is unlikely to receive his full attention.

China’s leadership needs to be even more far-sighted than Obama is. China is replacing the American consumer as the motor of the world economy.  Since it is a smaller motor, the world economy will grow slower, but China’s influence will rise very fast.

For the time being, the Chinese public is willing to subordinate its individual freedom to political stability and economic advancement. But that may not continue indefinitely – and the rest of the world will never subordinate its freedom to the prosperity of the Chinese state.

As China becomes a world leader, it must transform itself into a more open society that the rest of the world is willing to accept as a world leader.  Military power relations being what they are, China has no alternative to peaceful, harmonious development.  Indeed, the future of the world depends on it.

[**Is Europe on the Verge of a Liquidity Crisis?**](http://moneymorning.com/2010/05/27/europe-liquidity/)

By Jason Simpkins, Managing Editor, Money Morning

May 27, 2010

The euro's recent struggles have done more than bring [the currency's viability into question](http://moneymorning.com/2010/05/13/eu-bailout/). They've put the European Central Bank (ECB) on a collision course with a liquidity crisis.

The ECB is running low on dollars, and that problem could escalate when the U.S. Federal Reserve closes swap lines that were temporarily reinstated as the Greek debt crisis escalated. Additionally, more deposits are being yanked from the central bank as holders question whether or not the ECB has enough juice to stop a classic bank panic.

The euro yesterday (Wednesday) remained at a near four-year low against the dollar, tumbling 0.5% to $1.2306. The beleaguered currency dropped against the yen and British pound, as well.

The currency has come under tremendous pressure as investors wonder if Greece's fiscal crisis will spread to other heavily indebted nations.

Greece's deficit-to-gross domestic product (GDP) ratio is a staggering 13.6%, but Greece is No. 2 on the list of over-spenders. No. 1 is Ireland, whose deficit-to-GDP ratio is 14.3%. Spain comes in third at 11.2%, and Portugal is fourth at 9.4%.

The euro in the past six months has dropped by about 15% against the dollar, as investors rushed to ditch the currency. That [has stretched dollar liquidity in the Eurozone](http://moneymorning.com/2010/05/25/borrowing-costs/), and there's no indication that demand will ebb in the weeks ahead.

"[A shortage of dollar liquidity is being increasingly reflected in the sharp rise of dollar LIBOR](http://www.ft.com/cms/s/0/f520f5fc-68a3-11df-96f1-00144feab49a.html) and this is expected to get worse as the month-end approaches with pressures in money markets likely to build over the coming days," Hans Redeker, an analyst at BNP Paribas (OTC: [BNPQY](http://www.google.com/finance?q=BNPQY)), told the ***Financial Times***.

Data from the British Bankers' Association showed the three-month U.S. dollar London Interbank Offered Rate, or Libor, rose to 0.53781% from Tuesday's 0.53625%, the highest fixing since July 6, 2009. Libor - the rate banks pay each other for three-month loans in dollars - is a liquidity indicator.

Libor has more than doubled this year as the European debt crisis fueled speculation that the quality of banks' collateral has been degraded and financial institutions questioned their peers' creditworthiness.

Banks also are making greater use of the ECB's deposit facility, leaving cash with the central bank overnight for rates of interest that are lower than what they would earn lending to other banks.

The fear among banks was compounded when four of Spain's savings banks with more than $165 billion (135 billion euros) in assets [announced earlier this week that they plan to merge](http://moneymorning.com/2010/05/25/savings-banks/). That announcement stoked fears that some of Europe's biggest banks - which have broad and interlinked exposure to one another - are on the verge of toppling.

"[It's all part of concern about the system, about whether the sovereign-debt crisis will morph into a bigger systematic crisis](http://www.bloomberg.com/apps/news?pid=20601087&sid=aT9t8ZROEyKc&pos=3)," Padhraic Garvey, head of investment-grade strategy at ING Groep NV (NYSE ADR: [ING](http://www.google.com/finance?q=ING+Groep+NV+)) in Amsterdam, told ***Bloomberg News***. "We're not quite at a point where that's imminent, but that risk is being priced in."

The U.S. Federal Reserve on May 9 reinstated swap lines with the ECB in an effort to alleviate some of the stress on the central bank - but only as a temporary measure. There is growing speculation that the Fed will reduce the rate on dollar-euro swaps, but Federal Reserve Chairman Ben S. Bernanke has not indicated that that would be the case.

"While the market was hoping that the rates on this facility would become more favorable, Mr. Bernanke has been reminding the market that the dollar swap lines are not a permanent device," said BNP's Redeker, referencing comments Bernanke made yesterday in Tokyo.

Even so, the higher costs of the Fed's loan program have done nothing to stymie demand.   
  
The ECB allotted $5.4 billion to three banks at its dollar swap tender Wednesday, despite the funds being twice as expensive as rates in the interbank market.

"[The swap facility is continuing evidence of the rising demand for dollars](http://online.wsj.com/article/BT-CO-20100526-706316.html?mod=rss_Bonds)," Don Smith, an economist at ICAP, told the *Wall Street Journal*.

Of course, if no further action is taken and investors continue to pursue dollars at the expense of the euro, there's a growing likelihood that the European debt contagion will evolve into a systemic failure.

"What happens next is down to the central banks; the dollar funding hole needs plugging," Credit Agricole said in a research report. "We doubt that central banks are sitting on their hands at the moment and imagine that another 84-day dollar facility will be announced soon and then perhaps term-auction facilities, or any number of the older facilities."

The ECB could opt to cut its refinancing rate, used to lend to commercial banks, which is now at a record low 1%, or reintroduce regular six and 12-month refinancing operations in unlimited amounts, which were first used at the height of the financial market turmoil in 2007-08.

"[It could decide to diminish the cost of the USD liquidity](http://www.reuters.com/article/idUSTRE64P4TU20100526)," Barclays economist Laurent Fransolet told ***Reuters***. "But we would note that it did not do so even at the worst of the crisis when the demand for USD funding was much higher and conditions were much worse than currently."

Use of the Fed's swap facility reached $583 billion in December 2008, whereas foreign banks have only tapped the program for some $9 billion since it was reinstated earlier this month.

Pushed to extremes the ECB could also be forced to intervene by propping up the euro. However, that would only be an option if the euro slumps considerably below its long-term average, which it currently is not.

**Can the Euro be Saved?**

Joseph E. Stiglitz

05 05 2010

NEW YORK – The Greek financial crisis has put the very survival of the euro at stake.  At the euro’s creation, many worried about its long-run viability. When everything went well, these worries were forgotten. But the question of how adjustments would be made if part of the eurozone were hit by a strong adverse shock lingered. Fixing the exchange rate and delegating monetary policy to the European Central Bank eliminated two primary means by which national governments stimulate their economies to avoid recession. **What could replace them?**

**The Nobel Laureate Robert Mundell laid out the conditions under which a single currency could work**. Europe didn’t meet those conditions at the time; it still doesn’t. The removal of legal barriers to the movement of workers created a single labor market, but linguistic and cultural differences make American-style labor mobility unachievable.

Moreover, Europe has no way of helping those countries facing severe problems. Consider Spain, which has an unemployment rate of 20% – and more than 40% among young people. It had a fiscal surplus before the crisis; after the crisis, its deficit increased to more than 11% of GDP. But, under European Union rules, Spain must now cut its spending, which will likely exacerbate unemployment. As its economy slows, the improvement in its fiscal position may be minimal.

Some hoped that the Greek tragedy would convince policymakers that the euro cannot succeed without greater cooperation (including fiscal assistance). But Germany (and its Constitutional Court), partly following popular opinion, has opposed giving Greece the help that it needs.

To many, both in and outside of Greece, this stance was peculiar: billions had been spent saving big banks, but evidently saving a country of eleven million people was taboo! It was not even clear that the help Greece needed should be labeled a bailout: while the funds given to financial institutions like AIG were unlikely to be recouped, a loan to Greece at a reasonable interest rate would likely be repaid.

A series of half-offers and vague promises, intended to calm the market, failed. Just as the United States had cobbled together assistance for Mexico 15 years ago by combining help from the International Monetary Fund and the G-7, so, too, the EU put together an assistance program with the IMF. The question was, what conditions would be imposed on Greece? How big would be the adverse impact?

**For the EU’s smaller countries, the lesson is clear**: if they do not reduce their budget deficits, there is a high risk of a speculative attack, with little hope for adequate assistance from their neighbors, at least not without painful and counterproductive pro-cyclical budgetary restraints. As European countries take these measures, their economies are likely to weaken – with unhappy consequences for the global recovery.

**It may be useful to see the euro’s problems from a global perspective.** The US has complained about China’s current-account (trade) surpluses; but, as a percentage of GDP, Germany’s surplus is even greater. Assume that the euro was set so that trade in the eurozone as a whole was roughly in balance. In that case, Germany’s surplus means that the rest of Europe is in deficit. And the fact that these countries are importing more than they are exporting contributes to their weak economies.

The US has been complaining about China’s refusal to allow its exchange rate to appreciate relative to the dollar. But the euro system means that Germany’s exchange rate cannot increase relative to other eurozone members. **If the exchange rate did increase, Germany would find it more difficult to export, and its economic model, based on strong exports, would face a challenge. At the same time, the rest of Europe would export more, GDP would increase, and unemployment would decrease.**

Germany (like China) views its high savings and export prowess as virtues, not vices. But John Maynard Keynes pointed out that surpluses lead to weak global aggregate demand – countries running surpluses exert a “negative externality” on their trading partners. Indeed, Keynes believed that it was surplus countries, far more than deficit countries, that posed a threat to global prosperity; he went so far as to recommend a tax on surplus countries.

The social and economic consequences of the current arrangements should be unacceptable. Those countries whose deficits have soared as a result of the global recession should not be forced into a death spiral – as Argentina was a decade ago.

One proposed solution is for these countries to engineer the equivalent of a devaluation – a uniform decrease in wages. This, I believe, is unachievable, and its distributive consequences are unacceptable. The social tensions would be enormous. It is a fantasy.

**There is a second solution**: the exit of Germany from the eurozone or the division of the eurozone into two sub-regions. The euro was an interesting experiment, but, like the almost-forgotten exchange-rate mechanism (ERM) that preceded it and fell apart when speculators attacked the British pound in 1992, it lacks the institutional support required to make it work.

**There is a third solution**, which Europe may come to realize is the most promising for all: implement the institutional reforms, including the necessary fiscal framework, that should have been made when the euro was launched.

It is not too late for Europe to implement these reforms and thus live up to the ideals, based on solidarity, that underlay the euro’s creation. But if Europe cannot do so, then perhaps it is better to admit failure and move on than to extract a high price in unemployment and human suffering in the name of a flawed economic model.

***Chronicle of a Currency Crisis Foretold***

[***Martin Feldstein***](http://www.project-syndicate.org/contributor/1274)

***25-05-2010***

*Martin Feldstein, a professor of economics at Harvard, was Chairman of President Ronald Reagan's Council of Economic Advisors and President of the National Bureau for Economic Research.*

CAMBRIDGE – The crisis in Greece and the debt problems in Spain and Portugal have exposed the euro’s inherent flaws.  No amount of financial guarantees – much less rhetorical reassurance – from the European Union can paper them over. After 11 years of smooth sailing since the euro’s creation, the arrangement’s fundamental problems have become glaringly obvious.

The attempt to establish a single currency for 16 separate and quite different countries **was bound to fail**. The shift to a single currency meant that the individual member countries lost the ability to control monetary policy and interest rates in order to respond to national economic conditions. It also meant that each country’s exchange rate could no longer respond to the cumulative effects of differences in productivity and global demand trends.

In addition, the single currency weakens the market signals that would otherwise warn a country that its fiscal deficits were becoming excessive. And when a country with excessive fiscal deficits needs to raise taxes and cut government spending, as Greece clearly does now, the resulting contraction of GDP and employment cannot be reduced by a devaluation that increases exports and reduces imports.

**Why, then, is the United States able to operate with a single currency, despite major differences among its 50 states?** There are three key economic conditions – none of which exists in Europe – that allow the diverse US states to operate with a single currency: labor mobility, wage flexibility, and a central fiscal authority.

When the textile and shoe industries in America’s northeastern states died, workers moved to the West, where new industries were growing. The unemployed workers of Greece, Portugal, and Spain do not move to faster-growing regions of Europe because of differences in language, history, religion, union membership, etc. Moreover, wage flexibility meant that substantially slower wage growth in the states that lost industries helped to attract and retain other industries. And the US fiscal system collects roughly two-thirds of all taxes at the national level, which implies an automatic and substantial net fiscal transfer to states with temporarily falling incomes.

The European Central Bank must set monetary policy for the eurozone as a whole, even if that policy is highly inappropriate for some member countries. When demand in Germany and France was quite weak early in the last decade, the ECB reduced interest rates sharply. That helped Germany and France, but it also inflated real-estate bubbles in Spain and Ireland. The recent collapse of those bubbles caused sharp downturns in economic activity and substantial increases in unemployment in both countries.

The introduction of the euro, with its implication of a low common rate of inflation, caused sharp declines in interest rates in Greece and several other countries that had previously had high rates. Those countries succumbed to the resulting temptation to increase government borrowing, driving the ratio of government debt to GDP to more than 100% in Greece and Italy.

Until recently, the bond markets treated all euro sovereign debts as virtually equal, not raising interest rates on high-debt countries until the possibility of default became clear. The need for massive fiscal adjustment without any offsetting currency devaluation will now drive Greece and perhaps others to default on their government debt, probably through some kind of IMF-supported debt restructuring.

The euro was promoted as necessary for free trade among the member countries under the slogan “One Market, One Money.” In reality, of course, a single currency or fixed exchange rate is not needed for trade to flourish. The US has annual trade turnover of more than $2 trillion, despite a flexible exchange rate that has seen sharp ups and downs in recent decades. The North American Free Trade area increased trade among Canada, Mexico, and the US, all of which have separately floating exchange rates. Japan, South Korea, and other major Asian trading countries have very flexible exchange rates. And, obviously, only 16 nations within the 27-member EU’s free-trade area use the euro.

Despite its problems, the euro is very likely to survive the current crisis. But not all of the eurozone’s current members may be there a year from now. In retrospect, it is clear that some of the countries were allowed to join prematurely, when they still had massive budget deficits and high debt-to-GDP ratios. Moreover, some countries’ industrial composition and low rates of productivity growth mean that a fixed exchange rate would doom them to increasingly large trade deficits.

For the rest, some mechanism of enhanced surveillance and control may be adopted to limit future fiscal deficits. But, even with a smaller group of member countries and some changes in budget procedures, the fundamental problems of forcing disparate countries to live with a single monetary policy and a single exchange rate will remain.

[***Developing Countries and the Global Crisis***](http://www.project-syndicate.org/commentary/stiglitz111)

[***Joseph E. Stiglitz***](http://www.project-syndicate.org/contributor/184)

***April 15, 2009***

NEW YORK – This year is likely to be the worst for the global economy since World War II, with the World Bank estimating a decline of up to 2%. Even developing countries that did everything right – and had far better macroeconomic and regulatory policies than the United States did – are feeling the impact. Largely as a result of a precipitous fall in exports, China is likely to continue to grow, but at a much slower pace than the 11-12% annual growth of recent years. Unless something is done, the crisis will throw as many as 200 million additional people into poverty.

This global crisis requires a global response, but, unfortunately, responsibility for responding remains at the national level. Each country will try to design its stimulus package to maximize the impact on its own citizens – not the global impact. In assessing the size of the stimulus, countries will balance the cost to their *own* budgets with the benefits in terms of increased growth and employment for their own economies. Since some of the benefit (much of it in the case of small, open economies) will accrue to others, stimulus packages are likely to be smaller and more poorly designed than they otherwise would be, which is why a globally coordinated stimulus package is needed.

This is one of several important messages to emerge from a United Nations Experts Commission on the global economic crisis, which I chair – and which recently submitted its preliminary report to the UN.

The report supports many of the G-20 initiatives, but it urges stronger measures focused on developing countries. For instance, while it is recognized that almost all countries need to undertake stimulus measures (we’re all Keynesians now), many developing countries do not have the resources to do so. Nor do existing international lending institutions.

But if we are to avoid winding up in another debt crisis, some, perhaps much, of the money will have to be given in grants. And, in the past, assistance has been accompanied by extensive “conditions,” some of which enforced contractionary monetary and fiscal policies – just the opposite of what is needed now – and imposed financial deregulation, which was among the root causes of the crisis.

In many parts of the world, there is a strong stigma associated with going to the International Monetary Fund, for obvious reasons. And there is dissatisfaction not just from borrowers, but also from potential suppliers of funds. The sources of liquid funds today are in Asia and the Middle East, but why should these countries contribute money to organizations in which their voice is limited and which have often pushed policies that are antithetical to their values and beliefs?

Many of the governance reforms proposed for the IMF and the World Bank – affecting, most obviously, how their heads are chosen – finally seem to be on the table. But the reform process is slow, and the crisis will not wait. It is thus imperative that assistance be provided through a variety of channels, in addition to, or instead of, the IMF, including regional institutions. New lending facilities could be created, with governance structures more consonant with the twenty-first century. If this could be done quickly (which I think it could), such facilities could be an important channel for disbursing funds.

At their November 2008 summit the G-20 leaders strongly condemned protectionism and committed themselves not to engage in it. Unfortunately, a World Bank study notes that 17 of the 20 countries have actually undertaken new protectionist measures, most notably the US with the “buy American” provision included in its stimulus package.

But it has long been recognized that subsidies can be just as destructive as tariffs – and even less fair, since rich countries can better afford them. If there was ever a level playing field in the global economy, it no longer exists: the massive subsidies and bailouts provided by the US have changed everything, perhaps irreversibly.

Indeed, even firms in advanced industrial countries that have not received a subsidy are at an unfair advantage. They can undertake risks that others cannot, knowing that if they fail, they may be bailed out. While one can understand the domestic political imperatives that have led to subsidies and guarantees, developed countries need to recognize the global consequences, and provide compensatory assistance to developing countries.

One of the more important medium-term initiatives urged by the UN Commission is the creation of a global economic coordinating council, which would not only coordinate economic policy, but would also assess impending problems and institutional gaps. As the downturn deepens, several countries may, for example, face bankruptcy. But we still do not have an adequate framework for dealing with such problems.

And the US dollar reserve-currency system – the backbone of the current global financial system – is fraying. China has expressed concerns, and the head of its central bank has joined the UN Commission in calling for a new global reserve system. The UN Commission argues that addressing this old issue – raised more than 75 years ago by Keynes – is essential if we are to have a robust and stable recovery.

Such reforms will not occur overnight. But they will not occur *ever* unless work on them is begun now.

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***Europe’s Historic Gamble***

[***Barry Eichengreen***](http://www.project-syndicate.org/contributor/511)

***15 05 2010***

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BERKELEY – The last few weeks have been the most amazing – and important – period of the euro’s 11-year existence. First came the Greek crisis, followed by the Greek bailout. When the crisis spread to Portugal and Spain, there was the $1 trillion rescue. Finally, there were unprecedented purchases of Spanish, Portuguese, Greek, and Irish bonds by the European Central Bank. All of this was unimaginable a month ago.

Europe’s fortnight *mirabilis* was also marked by amazing – and erroneous – predictions. Greece would be booted out of the monetary union. The eurozone would be divided into a Northern European union and a Southern European union. Or the euro – and even the European Union – would disintegrate as Germany turned its back on the project.

But, rather than folding their cards, European leaders doubled down. They understand that their gamble will be immensely costly if it proves wrong. They understand that their political careers now ride on their massive bet. But they also understand that they already have too many chips in the pot to fold.

Those forecasting the demise of the euro were wrong because they misunderstood the politics. The euro is the symbol of the European project. Jacques Delors, one of its architects, once called the single currency “the jewel in Europe’s crown.” Abandoning it would be tantamount to declaring the entire European integration project a failure.

It is true that Germans are incensed about bailing out Greece. It is true that Angela Merkel is the first postwar German chancellor not to have lived through World War II. But her views and actions are shaped by the society in which she lives, which in turn is shaped by that history. And what is true of Merkel is still true of Europe. This is why European leaders swallowed hard and took their unprecedented steps.

But, having doubled their bet, Europeans now must make their monetary union work. Europe has excellent bank notes. It has an excellent central bank. But it lacks the other elements of a proper monetary union. It needs to establish them – and fast – which requires finally addressing matters that have been off-limits in the past.

**First, Europe needs a Stability Pact with teeth**. This will now happen, because Germany will insist on it. As the European Commission has proposed, the strengthened pact will have tighter deficit limits for heavily indebted countries. Exceptions and exemptions will be removed. Governments will be required to let the Commission vet their budgetary plans in advance.

**Second, Europe needs more flexible labor markets**. Adjustment in the United States’ monetary union occurs partly through labor mobility. This will never apply to Europe to a similar degree, given cultural and linguistic barriers.

Instead, Europe will have to rely on wage flexibility to enhance the competitiveness of its depressed regions. This is not something that it possesses in abundance. But recent cuts in public-sector pay in Spain and Greece are a reminder that Europe is, in fact, capable of wage flexibility. Where national wage-bargaining systems are the obstacle, the European Commission should say so, and countries should be required to change them.

**Third, the euro area needs fiscal co-insurance**. It needs a mechanism for temporary transfers to countries that have put their public finances in order but are hit by adverse shocks.

To be clear, this is not an argument for Germany’s dreaded “transfer union” – ongoing transfers to countries like Greece. It is an argument for temporary transfers to countries like Spain, which balanced its budgets prior to the crisis but then was hit by the housing slump and recession. It is an argument for fiscal insurance running in both directions.

**Fourth, the eurozone needs a proper emergency financing mechanism**. Emergencies should not be dealt with on an *ad hoc* basis by 27 finance ministers frantic to reach a solution before the Asian markets open. And European leaders, in their desperation, should not coerce the European Central Bank into helping. There should be clear rules governing disbursement, who is in charge, and how much money is available. It should not be necessary to obtain the agreement of 27 national parliaments each time action is needed.

Finally, Europe needs coherent bank regulation. One reason the Greek crisis is so difficult is that European banks are undercapitalized, overleveraged, and stuffed full of Greek bonds, thereby ruling out the possibility of restructuring – and thus lightening – Greece’s debt load.

That happened because European bank regulation is still characterized by a race to the bottom. “Colleges” of regulators, the supposed solution, are inadequate. **If Europe has a single market and a single currency, it needs a single bank regulator.**

This is a formidable – some would say unrealistically ambitious – agenda. But it is the agenda Europe needs to complete to make its monetary union work.

**[Kjo është një axhendë e frikshëm - disa do të thonë joreale ambicioze. Por kjo është agjenda që Evropa duhet të plotësojë për ta bërë unionin e saj monetar të funksionojë.]**

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***GDP Fetishism***

[***Joseph E. Stiglitz***](http://www.project-syndicate.org/contributor/184)

***September 2009***

NEW YORK – Striving to revive the world economy while simultaneously responding to the global climate crisis has raised a knotty question: are statistics giving us the right “signals” about what to do? **In our performance-oriented world, measurement issues have taken on increased importance: what we measure affects what we do.**

If we have poor measures, what we strive to do (say, increase GDP) may actually contribute to a worsening of living standards. We may also be confronted with false choices, seeing trade-offs between output and environmental protection that don’t exist. By contrast, a better measure of economic performance might show that steps taken to improve the environment are good for the economy.

Eighteen months ago, French President Nicolas Sarkozy established an international Commission on the Measurement of Economic Performance and Social Progress, owing to his dissatisfaction – and that of many others – with the current state of statistical information about the economy and society. On September 14, the Commission will issue its long-awaited report.

The big question concerns whether GDP provides a good measure of living standards. In many cases, GDP statistics *seem* to suggest that the economy is doing far better than most citizens’ own perceptions. Moreover, the focus on GDP creates conflicts: political leaders are told to maximize it, but citizens also demand that attention be paid to enhancing security, reducing air, water, and noise pollution, and so forth – all of which might lower GDP growth.

**The fact that GDP may be a poor measure of well-being, or even of market activity, has, of course, long been recognized**. But changes in society and the economy may have heightened the problems, at the same time that advances in economics and statistical techniques may have provided opportunities to improve our metrics.

**For example, while GDP is supposed to measure the value of output of goods and services, in one key sector – government – we typically have no way of doing it, so we often measure the output simply by the inputs. If government spends more – even if inefficiently – output goes up.** In the last 60 years, the share of government output in GDP has increased from 21.4% to 38.6% in the US, from 27.6% to 52.7% in France, from 34.2% to 47.6% in the United Kingdom, and from 30.4% to 44.0% in Germany. So what was a relatively minor problem has now become a major one.

**Likewise, quality improvements – say, better cars rather than just more cars – account for much of the increase in GDP nowadays.** But assessing quality improvements is difficult. Health care exemplifies this problem: much of medicine is publicly provided, and much of the advances are in quality.

The same problems in making comparisons over time apply to comparisons across countries. The United States spends more on health care than any other country (both per capita and as a percentage of income), but gets poorer outcomes. Part of the difference between GDP per capita in the US and some European countries may thus be a result of the way we measure things.

Another marked change in most societies is an increase in inequality. This means that there is increasing disparity between average (mean) income and the median income (that of the “typical” person, whose income lies in the middle of the distribution of all incomes). If a few bankers get much richer, average income can go up, even as most individuals’ incomes are declining. So GDP per capita statistics may not reflect what is happening to most citizens.

We use market prices to value goods and services. But now, even those with the most faith in markets question reliance on market prices, as they argue against mark-to-market valuations. The pre-crisis profits of banks – one-third of all corporate profits – appear to have been a mirage.

This realization casts a new light not only on our measures of performance, but also on the inferences we make. Before the crisis, when US growth (using standard GDP measures) seemed so much stronger than that of Europe, many Europeans argued that Europe should adopt US-style capitalism. Of course, anyone who wanted to could have seen American households’ growing indebtedness, which would have gone a long way toward correcting the false impression of success given by the GDP statistic.

Recent methodological advances have enabled us to assess better what contributes to citizens’ sense of well-being, and to gather the data needed to make such assessments on a regular basis. These studies, for instance, verify and quantify what should be obvious: the loss of a job has a greater impact than can be accounted for just by the loss of income. They also demonstrate the importance of social connectedness.

Any good measure of how well we are doing must also take account of sustainability. Just as a firm needs to measure the depreciation of its capital, so, too, our national accounts need to reflect the depletion of natural resources and the degradation of our environment.

Statistical frameworks are intended to summarize what is going on in our complex society in a few easily interpretable numbers. It should have been obvious that one couldn’t reduce everything to a single number, GDP. The report by the Commission on the Measurement of Economic Performance and Social Progress will, one hopes, lead to a better understanding of the uses, and abuses, of that statistic.

The report should also provide guidance for creating a broader set of indicators that more accurately capture both well-being and sustainability; and it should provide impetus for improving the ability of GDP and related statistics to assess the performance of the economy and society. Such reforms will help us direct our efforts (and resources) in ways that lead to improvement in both.

***Why Big Banks Will Get Bigger***

[***Harold James***](http://www.project-syndicate.org/contributor/262)

***05-01-2010***

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FLORENCE – **Severe banking crises bring painful and long-lasting disruptions.** But they also lead to surprises. The lessons learned in the immediate aftermath bear little relationship to the eventual outcome. There are immediate and obvious answers to the question of who was to blame, but they rarely correspond with the new shape of the financial landscape that ultimately emerges.

The crisis that began in 2007 originated in the sub-prime mortgage sector in the United States, and in US banks that were “too big to fail,” prompting many observers at the outset to predict the end of American financial capitalism. But the banks that were most affected were elsewhere, and the long-term winners will be a few American banks – including some of the most notoriously weak banks – which will get bigger as a result of the crisis. Fueled by the injection of taxpayers’ money, American capitalism is back in force.

The explanation of why the obvious lessons of the crisis are being not drawn lies in the curious character of financial activity. Banking is inherently competitive; but at the same time, it is not an industry where competition ever worked very well.

The core of financial activity depends on reputation, information networks, and the ability to make markets as well as trade on them. The result is that there are indisputable advantages to being big, as well as the disadvantages that have become obvious over the past two years. The market tends to be dominated by a relatively small number of firms.

In the old days, when banking was stable and regulated securely in a national setting, three or four leading banks tended to form an oligopoly: Barclays, Lloyds, Midland, and National Westminster in the United Kingdom; Commerzbank, Deutsche, and Dresdner in Germany. There were always suspicions of formal or informal banking cartels, which would agree on conditions and interest rates. Regulators generally turned a blind eye to these suspicions.

In the 1990’s and 2000’s, internationalization promised to produce a new landscape, in which a small handful of banks would once again divide up a single global market. Banks maneuvered to get the best position to take advantage of financial globalization, which usually meant locating themselves where the regulatory regime was least restrictive.

Banks got much bigger very quickly, and bigness brought problems. As they grew, banks found it difficult to manage the multiplicity of their divergent activities. They were beset with incompatible computer software systems, rogue employees, and the need to account for the different national cultures in which they were now operating.

Almost inevitably, the biggest banks in the world got into trouble. In the 1990’s, the largest banks were mostly Japanese. Who now remembers Daiichi Kangyo?

The financial crisis has produced a new answer to where the greatest competitive advantages lie. From banks’ perspective, the most obvious lesson was the need for a strong national government to bear the potential costs of a rescue. It is no longer best to be subject to the most favorable regulatory regime, but to be where the state has the deepest pockets.

Very large banks in small territories with small-scale governments are vulnerable. The US is big enough to handle behemoths like Bank of America or Citigroup. China can handle its large banks, even if they have large portfolios of poor credits.

European banks are in a more precarious situation. Ireland and Iceland have become notorious cases where a financial sector metastasized and destroyed the host country. Even in France and Germany, large and internationally active banks potentially exceed the government’s capacity to mount a rescue. In addition, there is the complexity of disentangling which country is responsible for what part of a rescue, when, for instance, Central European banks are controlled by an Austrian bank that is bought by a German bank that is then bought by an Italian bank.

As a result, the big transnational institutions are lobbying hard for a pan-European approach to banking supervision and regulation (and implicitly for fiscal bailouts should that supervision and regulation fail).

In the case of the banks that required state rescues, European competition rules are requiring divestment and downsizing. Institutions such as Royal Bank of Scotland, which for a time in 2009 headed the list of the world’s largest international banks, are being pruned by the EU’s Directorate General for Competition.

Even the stronger banks are being pressed to increase their capital reserves. In most cases, this means that they will continue to cut back on lending, worsening the impact of the financial crisis on the rest of the economy.

By contrast, in the US, the government pushed big banks into buying up smaller and vulnerable banks, and is now doing everything it can to press them to lend more.

Government reactions are full of paradoxes. The more we insist that a banking system should be competitive, the greater the risks that individual banks will take. The more governments are prepared to step in, and the greater the resources of those governments, the more big banks and big countries will be favored.

The last 20 years of globalization saw the emergence of small, open economies as global leaders. The next 20 years will see a different globalization, in which the winners are large, powerful countries that mobilize government resources in the interest of creating winners in the race for financial supremacy.

***Is Modern Capitalism Sustainable?***

[***Kenneth Rogoff***](http://www.project-syndicate.org/contributor/433)

***02-12-2011***

CAMBRIDGE – I am often asked if the recent global financial crisis marks the beginning of the end of modern capitalism. It is a curious question, because it seems to presume that there is a viable replacement waiting in the wings. The truth of the matter is that, for now at least, the only serious alternatives to today’s dominant Anglo-American paradigm are other forms of capitalism.

**Continental European capitalism**, which combines generous health and social benefits with reasonable working hours, long vacation periods, early retirement, and relatively equal income distributions, would seem to have everything to recommend it – except sustainability.

**China’s  Darwinian capitalism**, with its fierce competition among export firms, a weak social-safety net, and widespread government intervention, is widely touted as the inevitable heir to Western capitalism, if only because of China’s huge size and consistent outsize growth rate. Yet China’s economic system is continually evolving.

Indeed, it is far from clear how far China’s political, economic, and financial structures will continue to transform themselves, and whether China will eventually morph into capitalism’s new exemplar. In any case, China is still encumbered by the usual social, economic, and financial vulnerabilities of a rapidly growing lower-income country.

Perhaps the real point is that, in the broad sweep of history, all current forms of capitalism are ultimately transitional. Modern-day capitalism has had an extraordinary run since the start of the Industrial Revolution two centuries ago, lifting billions of ordinary people out of abject poverty.  Marxism and heavy-handed socialism have disastrous records by comparison. But, as industrialization and technological progress spread to Asia (and now to Africa), someday the struggle for subsistence will no longer be a primary imperative, and contemporary capitalism’s numerous flaws may loom larger.

First, even the leading capitalist economies have failed to price public goods such as clean air and water effectively. The failure of efforts to conclude a new global climate-change agreement is symptomatic of the paralysis.

Second, along with great wealth, capitalism has produced extraordinary levels of inequality. The growing gap is partly a simple byproduct of innovation and entrepreneurship. People do not complain about Steve Jobs’s success; his contributions are obvious. But this is not always the case: great wealth enables groups and individuals to buy political power and influence, which in turn helps to generate even more wealth. Only a few countries – Sweden, for example – have been able to curtail this vicious circle without causing growth to collapse.

A third problem is the provision and distribution of medical care, a market that fails to satisfy several of the basic requirements necessary for the price mechanism to produce economic efficiency, beginning with the difficulty that consumers have in assessing the quality of their treatment.

The problem will only get worse: health-care costs as a proportion of income are sure to rise as societies get richer and older, possibly exceeding 30% of GDP within a few decades. In health care, perhaps more than in any other market, many countries are struggling with the moral dilemma of how to maintain incentives to produce and consume efficiently without producing unacceptably large disparities in access to care.

It is ironic that modern capitalist societies engage in public campaigns to urge individuals to be more attentive to their health, while fostering an economic ecosystem that seduces many consumers into an extremely unhealthy diet. According to the United States Centers for Disease Control, 34% of Americans are obese. Clearly, conventionally measured economic growth – which implies higher consumption – cannot be an end in itself.

Fourth, today’s capitalist systems vastly undervalue the welfare of unborn generations. For most of the era since the Industrial Revolution, this has not mattered, as the continuing boon of technological advance has trumped short-sighted policies. By and large, each generation has found itself significantly better off than the last. But, with the world’s population surging above seven billion, and harbingers of resource constraints becoming ever more apparent, there is no guarantee that this trajectory can be maintained.

Financial crises are of course a fifth problem, perhaps the one that has provoked the most soul-searching of late. In the world of finance, continual technological innovation has not conspicuously reduced risks, and might well have magnified them.

In principle, none of capitalism’s problems is insurmountable, and economists have offered a variety of market-based solutions. A high global price for carbon would induce firms and individuals to internalize the cost of their polluting activities. Tax systems can be designed to provide a greater measure of redistribution of income without necessarily involving crippling distortions, by minimizing non-transparent tax expenditures and keeping marginal rates low.  Effective pricing of health care, including the pricing of waiting times, could encourage a better balance between equality and efficiency. Financial systems could be better regulated, with stricter attention to excessive accumulations of debt.

Will capitalism be a victim of its own success in producing massive wealth? For now, as fashionable as the topic of capitalism’s demise might be, the possibility seems remote. Nevertheless, as pollution, financial instability, health problems, and inequality continue to grow, and as political systems remain paralyzed, capitalism’s future might not seem so secure in a few decades as it seems now.

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***What Can Save the Euro?***

[***Joseph E. Stiglitz***](http://www.project-syndicate.org/contributor/184)

***05-12-2011***

NEW YORK – Just when it seemed that things couldn’t get worse, it appears that they have. Even some of the ostensibly “responsible” members of the eurozone are facing higher interest rates. Economists on both sides of the Atlantic are now discussing not just whether the euro will survive, but how to ensure that its demise causes the least turmoil possible.

It is increasingly evident that Europe’s political leaders, for all their commitment to the euro’s survival, do not have a good grasp of what is required to make the single currency work. The prevailing view when the euro was established was that *all* that was required was fiscal discipline – no country’s fiscal deficit or public debt, relative to GDP, should be too large. But Ireland and Spain had budget surpluses and low debt before the crisis, which quickly turned into large deficits and high debt. So now European leaders say that it is the current-account deficits of the eurozone’s member countries that must be kept in check.

In that case, it seems curious that, as the crisis continues, the safe haven for global investors is the United States, which has had an enormous current-account deficit for years. **So, how will the European Union distinguish between “good” current-account deficits – a government creates a favorable business climate, generating inflows of foreign direct investment – and “bad” current-account deficits?** Preventing bad current-account deficits would require far greater intervention in the private sector than the neoliberal and single-market doctrines that were fashionable at the euro’s founding would imply.

In Spain, for example, money flowed into the *private* sector from *private* banks. Should such irrational exuberance force the government, willy-nilly, to curtail public investment? Does this mean that government must decide which capital flows – say into real-estate investment, for example – are bad, and so must be taxed or otherwise curbed? To me, this makes sense, but such policies should be anathema to the EU’s free-market advocates.

The quest for a clear, simple answer recalls the discussions that have followed financial crises around the world. After each crisis, an explanation emerges, which the next crisis shows to be wrong, or at least inadequate. The 1980’s Latin American crisis was caused by excessive borrowing; but that could not explain Mexico’s 1994 crisis, so it was attributed to under-saving.

Then came East Asia, which had high savings rates, so the new explanation was “governance.”  But this, too, made little sense, given that the Scandinavian countries – which have the most transparent governance in the world – had suffered a crisis a few years earlier.

There is, interestingly, a common thread running through all of these cases, as well as the 2008 crisis: financial sectors behaved badly and failed to assess creditworthiness and manage risk as they were supposed to do.

These problems will occur with or without the euro. But the euro has made it more difficult for governments to respond. And the problem is not just that the euro took away two key tools for adjustment – the interest rate and the exchange rate – and put nothing in their place, or that the European Central Bank’s mandate is to focus on inflation, whereas today’s challenges are unemployment, growth, and financial stability. Without a common fiscal authority, the single market opened the way to tax competition – a race to the bottom to attract investment and boost output that could be freely sold throughout the EU.

Moreover, free labor mobility means that individuals can choose whether to pay their parents’ debts: young Irish can simply escape repaying the foolish bank-bailout obligations assumed by their government by leaving the country. Of course, migration is supposed to be good, as it reallocates labor to where its return is highest. But this kind of migration actually undermines productivity.

Migration is, of course, part of the adjustment mechanism that makes America work as a single market with a single currency. Even more important is the federal government’s role in helping states that face, say, high unemployment, by allocating additional tax revenue to them – the so-called “transfer union” so loathed by many Germans.

But the US is also willing to accept the depopulation of entire states that cannot compete. (Some point out that this means that America’s corporations can buy senators from such states at a lower price.) But are European countries with lagging productivity willing to accept depopulation? Alternatively, are they willing to face the pain of “internal” devaluation, a process that failed under the gold standard and is failing under the euro?

Even if those from Europe’s northern countries are right in claiming that the euro would work if effective discipline could be imposed on others (I think they are wrong), they are deluding themselves with a morality play. It is fine to blame their southern compatriots for fiscal profligacy, or, in the case of Spain and Ireland, for letting free markets have free reign, without seeing where that would lead. But that doesn’t address today’s problem: huge debts, whether a result of private or public miscalculations, must be managed *within the euro framework*.

Public-sector cutbacks today do not solve the problem of yesterday’s profligacy; they simply push economies into deeper recessions. Europe’s leaders know this. They know that growth is needed. But, rather than deal with today’s problems and find a formula for growth, they prefer to deliver homilies about what some previous government *should have done*.This may be satisfying for the sermonizer, but it won’t solve Europe’s problems – and it won’t save the euro.

*Joseph E. Stiglitz is University Professor at Columbia University, a Nobel laureate in economics, and the author of Freefall: Free Markets and the Sinking of the Global Economy.*

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***London vs. the Eurozone***

[***Howard Davies***](http://www.project-syndicate.org/contributor/1608)

***2011-12-14***

LONDON – **Ever since the United Kingdom joined the European Economic Community in 1973**, **after the French withdrew Charles de Gaulle’s veto of its membership**, Britain’s relationship with the European integration process has been strained. The British are reluctant Europeans, for historical and cultural reasons.

[Që kur Mbretëria e Bashkuar u bashkua me Komunitetin Ekonomik Europian në vitin 1973, pas tërheqjes të vetos franceze të Charles de Gaulle rreth anëtarësimit të saj, marrëdhëniet e Britanisë me procesin e integrimit evropian kanë qenë të tensionuara.Britanikët janë evropianë që hezitojnë, për arsye historike dhe kulturore.]

For centuries, British foreign policy strove to avoid permanent European entanglements; but, most importantly, it aimed to prevent a single continental power from achieving dominance – especially if that power happened to be France. In the meantime, the British colonized large portions of the globe. Later, after the sun set on their empire, they tried to maintain a “special relationship” with the United States. Joining the European Union was not an affirmation of belief in European integration, but rather a reluctant recognition that the transatlantic strategy had run its course. British public opinion concerning the EU has since remained lukewarm, at best.

In recent years, having opted-out of the single currency and the Schengen area (which allows Europeans to cross borders without passports), the UK has distanced itself from important EU initiatives. Nonetheless, Prime Minister David Cameron surprised everyone by vetoing a new EU treaty on December 9 – a first for the UK since joining the Union – leaving the other 26 member states to press ahead with greater fiscal integration on their own. More surprisingly, the negotiations broke down over arcane details of financial regulation.

For example, Cameron wanted to strike a “red line” through the proposal to subject the planned Deposit Guarantee Scheme Directive to the Qualified Majority Voting procedure (meaning that no member state would have veto power). Cameron also objected to the requirement that third-country financial firms in London without business in other EU states be required to hold a “single passport,” which would enable them to operate in any member country, but would also require them to submit to Europe-wide regulations.

These points are not entirely insignificant, but I would not care to explain them to a meeting of ordinary voters puzzled about Britain’s new European policy. So why has financial regulation become the unlikely *casus belli* between the UK and its partners?

The explanation is partly political. Cameron’s Conservative Party includes members who have been spoiling for a fight with the EU for a long time. For them, any excuse will do, and EU Internal Market Commissioner Michel Barnier has provided them with ammunition by pursuing what many see as an excessively restrictive regulatory agenda. When horse-trading for Commission jobs took place in 2009, former UK Prime Minister Gordon Brown was warned of the danger of allowing the French to hold the Internal Market post. But he chose instead to bid for the EU foreign-policy job for his Labour Party ally, Baroness Ashton.

When Barnier was appointed, French President Nicolas Sarkozy described it as a “defeat for Anglo-Saxon capitalism.” And so it has proved – though perhaps not in the way he envisaged.

But beneath the politics, there are other substantial conflicts between the UK and its continental neighbors. Barnier favors European directives that impose uniform rules for all member states – so called “maximum harmonization” measures. Previously, EU directives tended to impose minimum standards, which individual countries could supplement if they wished. They could outlaw initiatives that the UK holds dear, such as new rules to ring-fence retail banks’ subsidiaries and impose higher capital requirements on them. The governor of the Bank of England, Mervyn King, has voiced his anxieties on that point.

British officials are also deeply concerned about measures that would oblige clearinghouses that transact their business primarily in euros to be located within the single-currency area. Indeed, the British government was already taking the European Central Bank to court to challenge that policy before the treaty veto. They may have a point; arguably, the ECB’s proposal is inconsistent with single-market principles.

The key point of contention, however, is the pan-European Financial Transactions Tax, which the European Commission proposed with support from both Sarkozy and German Chancellor Angela Merkel. From a UK perspective, the FTT is highly unattractive. Between 60% and 70% of the revenue would be raised in London, yet the EU would spend most of the money to shore up eurozone finances.

For Britons, this idea stirs sentiments akin to what Germans might feel if the EU proposed a new tax on liverwurst, with the proceeds to go into the central pot. They also point out that, unless an FTT were agreed globally, financial companies would quickly migrate from London to New York.

This is Cameron’s best argument on the financial front. But he did not deploy it strongly, for the simple reason that tax policies in Europe are still subject to the unanimity rule. In other words, Britain can block the proposed FTT without a special protocol. This lends weight to the argument that Cameron’s veto was essentially a political move, intended to bolster his domestic support.

That is a big gamble, given that the UK now appears to be shuffling towards the EU exit. Certainly, the new *status quo* looks unsustainable, with 26 countries moving towards greater integration while the 27th remains aloof.

How will financial firms react? Will they be pleased that London has stamped its collective foot, even though Cameron’s regulatory demands were not accepted? Or will some simply begin to contact real-estate agents to line up office space in Paris or Frankfurt?

The game – London versus the eurozone – has only just begun. It will make for fascinating viewing in the months and years to come.

*Howard Davies, a former chairman of Britain’s Financial Services Authority, Deputy Governor of the Bank of England, and Director of the London School of Economics, is a professor at Sciences Po in Paris.*

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***Will anyone rescue Europe from its economic crisis?***

***By*** [***Robert J. Samuelson***](http://www.washingtonpost.com/robert-j-samuelson/2011/02/24/ABSZV8O_page.html)***, Published: November 15, 2011***

Amid Europe’s economic turmoil, a question nags: Where is the IMF?

Created in 1945 — and reflecting the breakdown of global cooperation in the Great Depression — the International Monetary Fund was intended to prevent a few countries’ problems from dragging down the world economy. Countries that got in trouble would borrow temporarily from the IMF. Under IMF supervision, they would adjust their economies gradually so that they wouldn’t destabilize the entire system. Well, that’s exactly the danger now posed by Europe.

It’s tempting to think that [new governments in Rome](http://www.washingtonpost.com/business/markets/berlusconis-splintered-party-insists-its-lending-full-support-to-monti-on-reforms/2011/11/16/gIQAV5ETQN_story.html) and Athens will resolve Europe’s deepening economic crisis. Perhaps they will, but the odds against this are long: more like 20 to 1 than 2 to 1. Already, high interest rates have barred Greece, Portugal and Ireland from borrowing in private markets. In 2012, Italy has to refinance 360 billion euros (nearly $500 billion at current rates) of maturing debt. If it can’t, it will default or require a huge rescue that, for the moment, seems beyond any European or global entity.

The fallout could be tumultuous. A default would probably cause mass failures among Italian banks, which hold 164 billion euros (more than $220 billion) of Italian government debt. Depositors might stage a run. French banks, with 53 billion euros of Italian debt (nearly $72 billion), would also be imperiled. If Italy defaulted, bond buyers might abandon France and Spain. Already, financial markets have [raised interest rates](http://www.washingtonpost.com/world/investors-sell-off-french-bonds-push-up-italian-borrowing-rates/2011/11/15/gIQAndXbON_story.html?hpid=z3) on Italian, Spanish and French debt.

Facing these grim possibilities, the IMF has been mostly missing in action. It has provided some funds for Greece, Portugal and Ireland. But more is needed, as economist Arvind Subramanian of the Peterson Institute makes clear in an [open letter](http://www.piie.com/realtime/?p=2500) to IMF Managing Director Christine Lagarde. What the IMF should do is organize a huge rescue fund — at least $1 trillion to $2 trillion, says Subramanian — to backstop Europe in case more countries lose access to private credit markets.

Countries could tap it in return for agreeing to IMF conditions to overhaul their economies. This way, the IMF might fulfill its basic mission. It couldn’t avert a European recession, which may have already started. But it could preempt a chaotic implosion of credit, confidence and spending that would threaten the wider world economy.

Three realities define Europe’s situation.

First, the crisis is as much political and social as it is economic. The “European model” of generous social benefits and secure jobs is besieged. Welfare states have become too costly for many countries’ economies to support. Benefits must be curtailed. The austerity being imposed or recommended inflicts direct hardship and assaults beliefs and expectations that have been nurtured for decades.

Second, Europe can no longer rescue itself. There are too many potentially needy debtors and too few credible lenders. The main rescue mechanism — the European Financial Stability Facility (EFSF) — has already committed about 250 billion euros of its 440 billion euros to Greece, Ireland and Portugal, reports the Institute of International Finance, an industry group (and the source of most data cited here). Even an expanded EFSF probably couldn’t handle Italy and certainly not Spain and France. The European Central Bank — Europe’s Federal Reserve — could buy unlimited amounts of government bonds. But it has so far disdained this role, fearing the inflationary consequences.

Finally, the IMF (whose European department head resigned Wednesday) is in no position to rescue Europe. At last count, it had about [$400 billion in available funds](http://www.imf.org/external/np/tre/activity/2011/111011.htm). This wouldn’t cover Italy’s refinancing needs for a year. So the IMF needs more money.

Getting it would be a chore, notes Subramanian. The Europeans don’t want to admit that they need help. The United States, he says, is resistant because its own high debts would prevent it from contributing, thereby diminishing its power. China fears being hoodwinked into throwing good money after bad; but without China, contributions from other countries (Brazil, India, Saudi Arabia) would be meaningless. Against these obstacles, he says, Lagarde could argue that, absent IMF help, a financial meltdown might cause a new global slump.

When created, the IMF was a political institution dedicated to stabilizing the world economy. Does it still work? “A tectonic shift has occurred in the global economy,” Subramanian writes. Traditional creditors (rich countries) and traditional debtors (poor countries) have switched places. Meanwhile, the social contracts written by most advanced nations, including the United States, will be rewritten by either design or events. Economic stability depends on managing political change.

Can China, Brazil, India and some major oil exporters deploy their financial power for the collective good — including the health of their export markets? Can Europe modify its welfare systems without being paralyzed by civil strife and feuds among nations? Or are we on a collision course with some future crisis whose advancing outlines we can dimly perceive but seem powerless to stop?

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***The Worst and the Best of Austerity***

[***Jean Pisani-Ferry***](http://www.project-syndicate.org/contributor/414)

***15-12-2011***

BRUSSELS – In June, it was Greece. In August, it was France, Italy, Spain, and Portugal. In September, it was Greece again – and Spain. In November, France took another turn, before Italy again in December, this time in a major way. Every month, despite an ever-darker outlook for economic growth, countries announce new spending cuts and tax hikes in the hope of restoring confidence in the bond markets. Only Germany stands out, having recently announced a tax cut, albeit a modest one.

In other words, while all indicators point to a severe economic downturn in Europe, the eurozone’s current interest-rate spreads are provoking a shift to austerity. It looks like a no-brainer: accelerated budget cuts are preferable to a lethal interest-rate surge on public debt, even if the cuts increase the risk of recession. But there are caveats.

First, while indiscriminate austerity may be the only option for those eurozone countries that no longer have access to capital markets, others have more choice of policy options. Consolidation is required, but governments are responsible for its speed and its design.

Second, a sound fiscal strategy requires establishing, on the basis of prudent economic assumptions, an ambitious budgetary target for the medium term, determining what mix of taxation and expenditure cuts are required in order to achieve it, and then sticking to the plan throughout economic fluctuations. This allows the so-called “automatic stabilizers” – lower receipts in a slowdown, higher in a boom – to come into play, preventing the economy from overheating at the top of the business cycle and providing stimulus at the bottom.

Third, headlong consolidation is not always the best way to reassure markets, which may worry more about growth. Italy is a case in point. The country’s budget deficit this year, at 4% of GDP, is far below that of Spain or France. Indeed, it was not the country’s deficit that finally led investors to shun Italian bonds, but rather a forbidding cocktail of high debt, desperately slow growth, and political paralysis. In a situation like this, nibbling at the edges of a deficit is at best a sideshow. The markets are demanding reforms that lift growth rates durably and an approach to fiscal consolidation that is consistent with higher potential growth.

Fourth, the cost of rushed austerity is that it generally relies on immediate fixes, such as indiscriminate spending cuts and tax hikes that are expected to yield revenue in the short term, but that have an economically damaging impact. Smart consolidation should, instead, minimize short-term economic damage and foster longer-term growth.

Governments know this only too well. At the end of 2010, most eurozone countries were penciling spending cuts into their consolidation programs while preserving the most productive areas, such as education and infrastructure. Moreover, they were planning to broaden the tax base rather than raise rates.

But, since this summer, governments have done the opposite. Rather than focus on spending, they have zeroed in on tax measures, for the most part increasing existing rates. This is a bad sign for growth.

What should they be doing instead? Fiscal consolidation is unavoidable, but that is a medium-term process. Instead of undertaking knee-jerk cuts, eurozone governments must first reestablish their credibility through policy rules enshrined in national legislations, as recently decided by the European heads of state and government.

Second, they should design and implement smart consolidations, even if they take a little more time to design and a little more time to implement. This entails finding the optimal balance between spending cuts and tax increases, and identifying the least harmful measures over the medium term. Doing so will take time, thought, and an iron will.

*Jean Pisani-Ferry is Director of Bruegel, an international economics think tank, Professor of Economics at Université Paris-Dauphine, and a member of the French Prime Minister’s Council of Economic Analysis.*

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***PM: You help us and we’ll help EU***

***Secret rescue talks with German leader Angela Merkel***

***By TOM NEWTON DUNN, Political Editor***

***Published: 19 Nov 2011***

**BRITAIN must get something back from Europe before it agrees to a new EU blueprint, David Cameron told German Chancellor Angela Merkel yesterday.**

The PM opened secret negotiations ahead of next month's crunch summit on treaty changes to save the teetering euro — which the UK still has the power to block.

Mr Cameron set out his demands when he flew to Berlin yesterday. Downing Street refused to say exactly what he asked for, but a senior No10 source told The Sun: "The PM made it clear to Mrs Merkel that Britain has certain interests it would like to take forward to see treaty change happen."

The PM's wish list is known to include:

**A RETHINK** on plans for a European transaction tax, which he fears would devastate the City unless the levy was applied worldwide;

**A PLEDGE** that the 17 Eurozone countries will not gang up on Britain and marginalise us;

**A REBALANCE** of powers so some employment red tape and unfair fishing and farming rules are scrapped.

Mr Cameron and Mrs Merkel also clashed on his plea to let the European Central Bank bail out struggling Italy, Spain and Portugal.

He sees it as the only way to stop the debt crisis spiralling further, but Germany believes it would fail.

In public the two smiling leaders tried to paper over their differences, calling each other "good friends".

But tensions soared again as German finance chief Wolfgang Schäuble claimed the pound was doomed and Britain would join the Euro "more quickly than many people believe".

Diplomats have also predicted Mr Cameron will fail to win any return of powers from Brussels — which Lib Dem boss Nick Clegg also firmly opposes.

But ex-Tory Premier John Major last night backed Mr Cameron's stand against the financial transaction tax, dubbing it "a heat-seeking missile" targeted directly at the City of London.

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***[New York Times](http://www.nytimes.com/)***

***Monday, December 5, 2011***

***Financial Regulatory Reform***

***Updated: Sept. 20, 2011***

The near-collapse of the world financial system in the fall of 2008 and the global credit crisis that followed gave rise to widespread calls for changes in the regulatory system. A year and a half later, in July 2010, Congress passed a bill expanding the federal government's role in the markets, reflecting a renewed mistrust of financial markets after decades in which Washington stood back from Wall Street with wide-eyed admiration.

In its broad outlines, the bill resembled the sweeping reform legislation President Obama had proposed in June 2009.  Its progress was marked by fierce industry lobbying and partisan battles, as almost all Republicans voted against the measure. In the year since its passage, the stock market is up, banking profits have grown and institutions that invest on behalf of average Americans are praising the tougher stance in Washington.

Dodd-Frank aims to rein in abusive lending practices and high-risk bets on complex derivative securities that nearly drove the banking system off a cliff. It creates a bureau to protect consumers from financial fraud, cuts fees banks charge for debit-card use, and sets up a means for the government to better supervise the nation’s largest financial institutions to avoid expensive and catastrophic failures. And it calls public exchanges on which derivatives and other complex financial instruments are traded.

But [there remain signs that the tightened regulatory measures could still be undone](http://www.nytimes.com/2011/07/19/business/dodd-frank-under-fire-a-year-later.html), creating uncertainty about whether the actions that have helped to stabilize Wall Street will be in place when the next crisis hits. Two dozen bills in Congress seek to dismantle parts of the Dodd-Frank Act. Business groups have argued that too many new regulations could snuff out the start of an economic recovery. And Republican candidates for president [have used the law as a symbol of government overreach](http://www.nytimes.com/2011/09/21/business/dodd-frank-act-is-a-target-on-gop-campaign-trail.html?hp) that is killing jobs.

Since Republicans took control of the House in the 2010 midterm elections, they and the financial industry have stepped up their efforts to rein in the new law, which itself left hundreds of important decisions to be worked out in one of the most complex rule-making processes ever undertaken by the government.

By September 2011, only a small portion of the law has taken hold. Of the up to 400 regulations called for in the act, only about a quarter had even been written, much less approved.

Key targets of the bill's opponents include reining in the powers of the [Consumer Financial Protection Bureau](http://topics.nytimes.com/top/reference/timestopics/organizations/c/consumer_financial_protection_bureau/index.html?inline=nyt-org), reconsidering limits on debit card fees and restricting the budgets and growth of the S.E.C. and the [Commodity Futures Trading Commission](http://topics.nytimes.com/top/reference/timestopics/organizations/c/commodity_futures_trading_commission/index.html?inline=nyt-org). And some of the most powerful players in the derivatives market — which is [closely controlled](http://www.nytimes.com/2010/12/12/business/12advantage.html) by just a small group of banks — argued that the government should allow a slow pace of changes for rewriting derivatives contracts.

[Read More...](javascript:toggleLayer('moretxt');%20javascript:toggleLayer2('more');)Senate Republicans are refusing to consider nominations for posts at several financial regulatory agencies. Lawmakers have taken aim at agencies for budget cuts. Administration officials say that banking and business lobbyists have spent more than $50 million in 2011 to try to change the law, most of which has still not taken effect because regulators have not finished drawing up the new rules.

Mr. Obama’s pick for director of the Consumer Financial Protection Bureau, a centerpiece of the Dodd-Frank Act, is [Richard Cordray](http://topics.nytimes.com/top/reference/timestopics/people/c/richard_cordray/index.html?inline=nyt-per), a former Ohio attorney general. Mr. Cordray was hired as the bureau’s director of enforcement by [Elizabeth Warren](http://topics.nytimes.com/top/reference/timestopics/people/w/elizabeth_warren/index.html), a Harvard law professor and bankruptcy expert whom Mr. Obama credited with giving him the idea for the agency.

While Ms. Warren has been working since September to prepare the agency for its July 21 opening, Republicans made clear that they did not want her appointed to a permanent position. A group of 44 Republican senators vowed they would not let any nomination come to a floor vote unless significant changes were made in the structure, power and scope of the consumer agency.

It is not yet clear that the forces fighting to preserve all the elements of Dodd-Frank will, in fact, win out. It is also not clear that Mr. Cordray will be confirmed by the Senate.

**Background**

The Dodd-Frank Act, which was signed into law by Mr. Obama on July 21, 2010, was hailed as marking the end of more than a generation in which the prevailing posture of Washington toward the financial industry was largely one of hands-off cheering, evidenced by steady deregulation. While the measure did not fully restore the toughest restrictions imposed after the Great Depression, it was meant to be a clear turning point, highlighting a new distrust of Wall Street, fear of the increasing complexity of technology-driven markets, and renewed reliance on government to protect the little guy.

The bill expanded federal banking and securities regulation from its focus on banks and public markets, subjecting a wider range of financial companies to government oversight, and imposing regulation for the first time on "black markets" like the enormous trade in credit derivatives.

It created a council of federal regulators, led by the Treasury secretary, to coordinate the detection of risks to the financial system, and it provides new powers to constrain and even dismantle troubled companies.

It also created a powerful new regulator, appointed by the president, to protect consumers of financial products, which will be housed in the Federal Reserve. The choice of a director for the consumer protection bureau became the first battleground of the post-passage struggle. Mr. Obama appointed [Elizabeth Warren,](http://topics.nytimes.com/top/reference/timestopics/people/w/elizabeth_warren/index.html?scp=1-spot&sq=elizabeth%20warren&st=cse) a Harvard bankruptcy expert who had proposed the agency, to be its head, but in acting capacity, after it became clear that Republicans would block a confirmation vote. In 2011, Senate Republicans went further, saying they would allow no vote on any director until the bureau's independence had been reduced.

The law also imposed new regulations on [derivatives](http://topics.nytimes.com/top/reference/timestopics/subjects/d/derivatives/index.html?scp=1-spot&sq=derivatives&st=cse), the complex financial instruments credited with amplifying the credit crunch. Most trading will be required to take place through open marketplaces and banks would have to segregate or spin off their derivative-trading wings, although some exceptions were created in the final round of deal-making during the conference committee.

The final measure also included the so-called Volcker rule, which the banks had fought almost as strongly as the derivative restrictions. The rule, named for [Paul A. Volcker](http://topics.nytimes.com/top/reference/timestopics/people/v/paul_a_volcker/index.html?inline=nyt-per), the former Federal Reserve chairman who proposed the measure in early 2010, restricts the ability of banks whose deposits are federally insured from trading for their own benefit, although not as strictly as Mr. Volcker had suggested.

**Passage of the Bill**

 The House first passed a bill in December 2009. In May 2010, after months of wrangling, [the Senate passed a broadly similar bill](http://www.nytimes.com/2010/05/21/business/21regulate.html) with four Republicans joining all but two Democrats in support. It took a month for the House and Senate to work out the differences. The House gave final passage on June 30, by a vote of 237 to 192, with all but three Republicans in opposition.

In the Senate, three Republicans — Olympia J. Snowe and Susan Collins of Maine and Scott Brown of Massachusetts — supported the bill, giving the Democrats the votes they needed to overcome a Republican filibuster and pass the bill on July 15 by a tally of 60 to 39. One Democrat, Russ Feingold of Wisconsin, opposed the measure, saying it did not go far enough.that they still wanted tougher policing of Wall Street. The bill was also criticized by liberal economists who said it did not go far enough.

Winning final passage was complicated for Democrats by the death of  Senator Robert C. Byrd of West Virginia after the conference agreement was reached. To hang on to the votes of moderate Republicans they dropped a tax on big banks and hedge funds that was meant to pay for the cost of the bill, estimated at $20 billion over five years. The tax was replaced by a plan to redirect $11 billion in funds repaid from the federal bank bailout, and changes to F.D.I.C. rules that would raise more revenue.

**Shifting Responsibilities for Regulators**

Part of Mr. Obama's proposal was a provision to give the Federal Reserve greater supervisory authority over large financial institutions whose problems pose potential risks to the economic system. The suggestion drew fire from Republicans and from existing regulators whose role would be diminished, as well as from liberal critics who pointed out that the Fed had failed to head off the collapse of 2008..

The bill drafted by Senator Christopher J. Dodd, the chairman of the Senate Banking Committee, sought to restrict the Fed's authority to about 35 bank holding companies, each with $50 billion or more in assets, which would put about 4,900 smaller bank holding companies and 850 state-chartered banks that are members of the Fed system under the control of the F.D.I.C. But the provision was stripped from the bill during floor debate, by a vote of 90 to 9, in a big victory for the Fed.

The bill would enshrine Washington's role in policing Wall Street by creating a nine-member council, led by the Treasury secretary, to detect systemic risks to the markets and placing the Federal Reserve in charge of all of the nation's largest and most interconnected financial institutions. The bill includes a provision intended to curb Wall Street's influence over the Federal Reserve Bank of New York. Its president would be appointed by the president of the United States, not by a board that includes representatives of member banks.

**Consumer Protection Agency**

The bill passed by the House on Dec. 11, 2009 in a 223 to 202 vote would have created an agency to protect consumers from abusive lending practices, set rules for the trading of some of the sophisticated financial instruments that fueled the crisis, and take steps to reduce the threat that the failure of one or two huge banks or investment firms could topple the entire economy.

The Senate bill made the Consumer Protection Agency a branch of the Fed. The final bill does, too, but with provisions meant to preserve its independence, such as having its director be appointed directly by the president.

The agency is expected to push for measures like requiring lenders to provide plain-English disclosures, price comparisons with alternative products and clear tripwires before fees are assessed.

**Derivatives**

The chairwoman of the Senate Agriculture Committee, Blanche Lincoln of Arkansas, introduced a bill in April 2010 that would take a similar approach to clearinghouses and end-user exemptions. The bill would also require most derivatives to be traded on an open exchange.

Currently, the only way to trade many derivatives is to call up various dealers and ask for the price at which they are willing to buy or sell. The securities dealer profits from the difference between the prices at which it buys from one party and sells to another. Investors rarely, if ever, see details on the other side of the trade. Wall Street has signaled that it can live with a clearinghouse approach, but it is strongly opposed to exchange trading of derivatives, which would introduce price competition and lower the profits.

Wall Street bankers were stunned by the most aggressive portion of Ms. Lincoln's bill, one that was opposed even by the Obama administration. That proposal would essentially ban banks from being dealers in swaps or other derivatives by taking away their access to federal deposit insurance and their ability to borrow from the Federal Reserve if they kept those businesses.

Banks made that provision their top target in conference negotiations, but the measure appeared to help Mrs. Lincoln win a tough primary fight, and it stayed in the bill, although the rules were loosened somewhat in the final agreement.

**The Volcker Rule**

The "Volcker rule" or "Volcker plan," a measure named for [Paul A. Volcker](http://topics.nytimes.com/top/reference/timestopics/people/v/paul_a_volcker/index.html?inline=nyt-per), the former Federal Reserve chairman who proposed it, would restrict the ability of banks whose deposits are federally insured from trading for their own benefit.

In January 2010, [President Obama proposed that the Volcker rule](http://www.nytimes.com/2010/01/23/business/23bank.html) be a part of the general [financial regulatory reform](http://topics.nytimes.com/topics/reference/timestopics/subjects/c/credit_crisis/financial_regulatory_reform/index.html) push. Big losses by banks in the trading of financial securities, especially mortgage-backed assets, precipitated the credit crisis in 2008 and the federal bailout.

The measure's aim is to keep highflying traders and other gamblers inside of banks from getting their hands on or putting at risk the old-fashioned savings of average depositors. A main element to the plan would bar banks from making proprietary trades - using their own money to place directional market bets that are unrelated to serving customers. Another change would prevent institutions from investing their own money in hedge funds or [private equity](http://topics.nytimes.com/top/reference/timestopics/subjects/p/private_equity/index.html?inline=nyt-classifier) operations.

The ban on proprietary trading was one of the less contentious points of debate for members of Congress, who tended to agree that banks should not be allowed to use a guarantee of government deposit insurance- indirectly financed by taxpayers- to provide themselves with cheap capital that they then use for risky trading activities.

Banks and some members of Congress argued that the proposed definitions are too vague. But even the bank lobbyists have said that proprietary trading accounts for only a small fraction of their revenue- from an estimated 10 percent at Goldman Sachs to half that for big commercial banks.

Banks managed to wrangle limited exceptions to the rule that would allow them to continue some investing and trading activity. The agreement limits banks' investments in hedge funds or [private equity](http://topics.nytimes.com/top/reference/timestopics/subjects/p/private_equity/index.html?inline=nyt-classifier) funds to no more than 3 percent of a fund's capital; those investments could also total no more than 3 percent of a bank's tangible equity.

**Too Big to Fail**

The bill authorizes regulators to impose restrictions on large, troubled financial companies, and creates a process for the government to liquidate failing companies at no cost to taxpayers, which is similar to the F.D.I.C. process for liquidating failed banks. Regulators would have considerable leeway to impose restrictions on the largest financial companies, which could give smaller banks competitive advantages.

Republicans have vowed to undo this part of the bill, saying it would create an expectation among investors that they would be bailed out. It would be better, they argue, to leave the process to the bankrupcty courts.

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**The Neuroeconomics Revolution**

[***Robert J. Shiller***](http://www.project-syndicate.org/contributor/498)

**21-11-2011**

NEW HAVEN – Economics is at the start of a revolution that is traceable to an unexpected source: medical schools and their research facilities. Neuroscience – the science of how the brain, that physical organ inside one’s head, really works – is beginning to change the way we think about how people make decisions. These findings will inevitably change the way we think about how economies function. In short, we are at the dawn of “**neuroeconomics**.”

Efforts to link neuroscience to economics have occurred mostly in just the last few years, and the growth of neuroeconomics is still in its early stages. But its nascence follows a pattern: revolutions in science tend to come from completely unexpected places. A field of science can turn barren if no fundamentally new approaches to research are on the horizon. Scholars can become so trapped in their methods – in the language and assumptions of the accepted approach to their discipline – that their research becomes repetitive or trivial.

Then something exciting comes along from someone who was never involved with these methods – some new idea that attracts young scholars and a few iconoclastic old scholars, who are willing to learn a different science and its different research methods. At a certain moment in this process, a scientific revolution is born.

The neuroeconomic revolution has passed some key milestones quite recently, notably the publication last year of neuroscientist **Paul Glimcher’s** book *Foundations of Neuroeconomic Analysis* – a pointed variation on the title of Paul Samuelson’s 1947 classic work, *Foundations of Economic Analysis*, which helped to launch an earlier revolution in economic theory. And Glimcher himself now holds an appointment at New York University’s economics department (he also works at NYU’s Center for Neural Science).

To most economists, however, Glimcher might as well have come from outer space. After all, his doctorate is from the University of Pennsylvania School of Medicine’s neuroscience department. Moreover, neuroeconomists like him conduct research that is well beyond their conventional colleagues’ intellectual comfort zone, for they seek to advance some of the core concepts of economics by linking them to specific brain structures.

**Much of modern economic and financial theory is based on the assumption that people are rational, and thus that they systematically maximize their own happiness, or as economists call it, their “utility.”** When Samuelson took on the subject in his 1947 book, he did not look into the brain, but relied instead on “revealed preference.” People’s objectives are revealed only by observing their economic activities. Under Samuelson’s guidance, generations of economists have based their research not on any physical structure underlying thought and behavior, but only on the assumption of rationality.

As a result, Glimcher is skeptical of prevailing economic theory, and is seeking a physical basis for it in the brain. He wants to transform “soft” utility theory into “hard” utility theory by discovering the brain mechanisms that underlie it.

In particular, Glimcher wants to identify brain structures that process key elements of utility theory when people face uncertainty: “(1) subjective value, (2) probability, (3) the product of subjective value and probability (expected subjective value), and (4) a neuro-computational mechanism that selects the element from the choice set that has the highest ‘expected subjective value’…”

While Glimcher and his colleagues have uncovered tantalizing evidence, they have yet to find most of the fundamental brain structures. Maybe that is because such structures simply do not exist, and the whole utility-maximization theory is wrong, or at least in need of fundamental revision. If so, that finding alone would shake economics to its foundations.

Another direction that excites neuroscientists is how the brain deals with ambiguous situations, when probabilities are not known, and when other highly relevant information is not available. It has already been discovered that the brain regions used to deal with problems when probabilities are clear are different from those used when probabilities are unknown. This research might help us to understand how people handle uncertainty and risk in, say, financial markets at a time of crisis.

John Maynard Keynes thought that most economic decision-making occurs in ambiguous situations in which probabilities are not known. He concluded that much of our business cycle is driven by fluctuations in “animal spirits,” something in the mind – and not understood by economists.

Of course, the problem with economics is that there are often as many interpretations of any crisis as there are economists. An economy is a remarkably complex structure, and fathoming it depends on understanding its laws, regulations, business practices and customs, and balance sheets, among many other details.

Yet it is likely that one day we will know much more about how economies work – or fail to work – by understanding better the physical structures that underlie brain functioning. Those structures – networks of neurons that communicate with each other via axons and dendrites – underlie the **familiar analogy of the brain to a computer** – networks of transistors that communicate with each other via electric wires. **The economy is the next analogy: a network of people who communicate with each other via electronic and other connections.**

The brain, the computer, and the economy: all three are devices whose purpose is to solve fundamental information problems in coordinating the activities of individual units – the neurons, the transistors, or individual people. As we improve our understanding of the problems that any one of these devices solves – and how it overcomes obstacles in doing so – we learn something valuable about all three.

*Robert Shiller, Professor of Economics at* ***Yale University****, is co-author, with George Akerlof, of Animal Spirits: How Human Psychology Drives the Economy and Why It Matters for Global Capitalism.*

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***Services without Tears***

[***Jeffrey D. Sachs***](http://www.project-syndicate.org/contributor/2)

***24-11-2011***

NEW YORK – A famous claim in economics is that the cost of services (such as health care and education) tends to increase relative to the cost of goods (such as food, oil, and machinery). This seems right: people around the world can barely afford the rising health-care and school-tuition costs they currently face – costs that seem to increase each year faster than overall inflation. But a sharp decline in the costs of health care, education, and other services is now possible, thanks to the ongoing **information and communications technology (ICT) revolution**.

The cost of services compared to the cost of goods depends on productivity. If farmers become much better at growing food while teachers become little better at teaching kids, the cost of food will tend to fall relative to the cost of education. Moreover, the proportion of the population engaged in farming will tend to fall, since fewer farmers are needed to feed the entire country.

This is the long-term pattern that we’ve seen: the share of the workforce in goods production has declined over time, while the cost of goods has fallen relative to that of services. In the United States, around 4% of the population in 1950 was employed in agriculture, 38% in industry (including mining, construction, and manufacturing), and 58% in services. By 2010, the proportions were roughly 2%, 17%, and 81%, respectively. In the meantime, health-care and tuition costs have soared, along with the costs of many other services.

But a productivity revolution in service-sector delivery is now possible. As a professor, I feel it in my own classroom. Ever since I began teaching 30 years ago, it had seemed that the technology was rather fixed. I would stand before a class and give a one-hour lecture. Sure, the blackboard gave way to an overhead projector, and then to PowerPoint; but, otherwise, the basic classroom “production system” seemed to change little.

In the past two years, everything has changed – for the better. At eight on Tuesday mornings, we turn on a computer at Columbia University and join in a “global classroom” with 20 other campuses around the world. A professor or a development expert somewhere gives a talk, and many hundreds of students listen in through videoconferencing.

Information technology is revolutionizing the classroom and driving down the costs of producing first-rate educational materials. Many universities are putting their classes online for free, so that anyone in the world can learn physics, math, or economics from world-class faculty. At Stanford University this fall, two computer-science professors put their courses online for students anywhere in the world; now they have an enrollment of 58,000.

The same breakthroughs now possible in education can occur in health care. The US health-care system is notoriously expensive, partly because many of the key costs are controlled by the American Medical Association and private-sector health-insurance companies, which act like monopolists, driving up costs. Such monopoly pricing should be ended.

Yet there are other reasons for high health-care costs. Many people suffer from chronic ailments, such as heart disease, diabetes, obesity, and depression and other mental disorders. These diseases can be expensive to address if they are poorly managed and treated. Far too many people end up in the emergency room and the hospital because they lacked the advice and help to keep their conditions under control without institutional care, or even to prevent their disorders entirely.

Now information technology is coming to the rescue. Innovative companies like CareMore in California are using ICT to keep their clientele healthy and out of the hospital. For example, when CareMore’s patients step on the scale at home each day, their weight is automatically transmitted to the health-care unit. If there is a dangerous weight swing, which could be caused by congestive heart failure, the clinic brings the patient in for a quick examination, thereby heading off a potentially devastating crisis.

These innovative companies’ approaches combine three ideas. The first is to use ICT to help individuals monitor their health conditions, and to connect individuals with expert advice. The second is to empower outreach workers (sometimes called “community health workers”) to provide home-based care in order to prevent more serious illnesses and to cut down on the high costs of doctors and hospitals.

The third idea is to recognize that many illnesses arise or become worse because of individuals’ social circumstances. Perhaps the patient is isolated, lonely, suffering from depression, out of work, or facing some other personal or family calamity. If these social conditions go unaddressed, they may give rise to an expensive, even deadly, medical condition.

Smart healthcare is therefore holistic, helping people not only as patients arriving in the emergency room, but also as individuals and family members in their own homes and communities. Holistic health care is more humane, effective, and cost-efficient. The ICT revolution provides the means to achieve holistic health care in new and powerful ways.

In economic terms, information and communications technologies are “disruptive,” meaning that they will outcompete the existing, more expensive ways of doing things. Implementing disruptive technologies is never easy. Existing high-cost producers, especially entrenched monopolists, resist. National budgets may continue to favor the old ways.

Nevertheless, the promise of great cost savings and major advances in service delivery is at hand. The world’s economies, rich and poor alike, have much to gain from accelerated innovation in the information age.

*Jeffrey D. Sachs is Professor of Economics and Director of the Earth Institute at Columbia University. He is also Special Adviser to United Nations Secretary-General on the Millennium Development Goals.*

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***The growing tension between capitalism and democracy***

[***Harold Meyerson***](http://www.washingtonpost.com/harold-meyerson/2011/02/24/ABvsvmP_page.html)***,***

***November 25, 2011***

Do capitalism and democracy conflict? Does each weaken the other?

To the American ear, these questions sound bizarre. Capitalism and democracy are bound together like Siamese twins, are they not? That was our mantra during the Cold War, when it was abundantly clear that communism and democracy were incompatible. After the Cold War ended, though, things grew murkier. Recall that virtually every U.S. chief executive and every U.S. president (two Bushes and one Clinton, in particular) told us that bringing capitalism to China would democratize China.

It hasn’t quite worked out that way.

Over the past year, in fact, capitalism has fairly rolled over democracy. Nowhere is this more apparent than in Europe, where financial institutions and large investors have gone to war under the banner of austerity, and governments of nations with not-very-productive or overextended economies have found that they could not satisfy those demands and still cling to power. The elected governments of Greece and Italy have been deposed; financial technocrats are now at the helm of both nations. With [interest rates on Spanish bonds rising sharply](http://www.washingtonpost.com/business/markets/spain-takes-over-another-bank-hurt-by-crisis-injects-3b-into-banco-de-valencia/2011/11/21/gIQApOzZiN_story.html) in recent weeks, [Spain’s socialist government was unseated](http://www.washingtonpost.com/world/europe/spaniards-start-voting-in-general-elections-dominated-by-countrys-financial-crisis/2011/11/20/gIQALErzdN_story.html) last weekend by a center-right party that has offered no solutions to that country’s growing crisis. Now the Sarkozy government in France is threatened by [rising interest rates](http://www.washingtonpost.com/world/investors-sell-off-french-bonds-push-up-italian-borrowing-rates/2011/11/15/gIQAndXbON_story.html) on its bonds. It’s as though the markets throughout Europe have had enough with this democratic sovereignty nonsense.

Lest you think I exaggerate, consider the interview that Alex Stubb, the minister of Europe for Finland’s right-wing government, gave to the Financial Times last weekend. **The six euro-zone nations with AAA credit ratings, said Stubb, should have greater say in Europe’s economic affairs than the other 11 euro members**. The political rights of Southern and Eastern Europe would be subordinated, essentially, to those of Germany and Scandinavia — or to credit rating agencies, which are threatening to downgrade France (thereby reducing the number of decision-making euro nations from six to five).

What Stubb is proposing, and what the markets are doing, is, in essence, extending to the realm of once-equally-sovereign nations the one-dollar-one-vote principle that our Supreme Court enshrined in its *Citizens United* decision last year. The requirement that one must own property to vote — abolished in this nation in the early 1800s by the Jacksonian Democrats — has been resurrected by powerful financial institutions and their political allies. To the nations of the European currency union, the “property” they need to secure their right to vote is a proper credit rating.

Yet this all seems very strange. The idea that there’s a conflict between our economic and political systems is hard to accept, and not just in the United States. In Europe, too, it has been assumed that democracy and capitalism (at least, European social capitalism) go together. That’s largely because both systems thrived in apparent harmony for the three decades that followed World War II. Profits rose even as wages increased and social benefits expanded. But what if that 30-year peace was the exception to the more common state of conflict between markets and the people?

That’s the argument [Wolfgang Streeck](http://www.newleftreview.org/?page=article&amp;view=2914), the managing director of the Max Planck Institute for the Study of Societies, makes in the September-October issue of New Left Review. Streeck contends that, since the mid-1970s, governments have had to stretch to meet the conflicting demands of each system. In the ’70s, governments pursued inflationary policies to help workers whose wages had abruptly stopped rising. In the ’80s, governments, led by Ronald Reagan and Margaret Thatcher, tipped the other way by raising interest rates and unemployment and helping to break unions. In the ’90s, a fatal compromise was struck: To compensate for stagnating incomes, private debt soared, with homeowners and consumers relying on credit extended by deregulated financial institutions. Public debt contracted (the United States had balanced budgets in the late 1990s). In the wake of the collapse of 2008, that dynamic has been reversed: Governments everywhere assumed the debt that their citizens could no longer take on by deficit-spending to counteract the Great Recession.

Now, the markets are striking back. **Napoleon couldn’t conquer all of Europe, but Standard & Poor’s may yet.** Conflicts between capitalism and democracy are breaking out all over. And Europeans — and even Americans — may soon have to face a question they have not contemplated in a very long time, if ever: Which side are they on?

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***KUHNER: Croatia, the next Greece***

***Offer of EU membership is a Faustian bargain***

***By*** [***Jeffrey T. Kuhner***](http://www.washingtontimes.com/staff/jeffrey-t-kuhner/)

***The Washington Times***

***Saturday, November 26, 2011***

Croatia is on the verge of national surrender. This small Balkan nation is poised to follow the disastrous path of Greece - dramatically affecting European and U.S. taxpayers. On Dec. 4, Croatians will hold parliamentary elections. The ruling Croatian Democratic Union, known by its acronym HDZ, is expected to lose - and rightly so.

The HDZ has been mired in corruption scandals. Its former leader, Ivo Sanader, is in prison awaiting trial on charges of embezzling millions. Croatian Prime Minister Jadranka Kosor has sought to improve her party's badly tarnished image. She has failed.

For years, Zagreb's governing class has pillaged the Croatian economy. More than $1 billion has been siphoned off or stolen. Shady privatization deals have enriched HDZ-connected oligarchs. Bribery is rampant. The regime harasses independent journalists and media critics. Judges frequently are political hacks. The rule of law is almost nonexistent. Property rights are violated routinely. More than 1 million court cases remain backlogged - a stunning number for a country of about 4 million citizens.

The results have been disastrous. The unemployment rate hovers at 20 percent. Youth unemployment is near 40 percent. Growth is anemic. Yet the HDZ's most destructive legacy has been its reckless borrowing and spending. The national debt has skyrocketed. Croatia's per-capita debt-to-gross-domestic-product ratio is one of the highest in Europe. In response, Ms. Kosor's government has refused to do what is required: slash public spending and overhaul the country's lavish entitlement programs. Instead, Zagreb has raised taxes - especially on foreign corporations. The HDZ's high-tax, statist polices have fostered economic sclerosis, chased away investment capital and stifled job creation.

Moreover, the country is so saddled with debt that Croatia's Central Bank is warning of possible national bankruptcy and financial collapse. Croatia's future is bleak. That is why its largest export has been people - the vast brain drain of the most educated and skilled young Croatians.

The HDZ has staked everything on joining the European Union. Brussels has agreed to accept Croatia as its newest member. According to Zagreb, EU accession is the magic solution to the country's woes. It isn't.

The current EU agreement is a dagger aimed at the heart of Croatia's national sovereignty and economic independence. It literally sells the country down the river - Croatia's fishing and agricultural sectors will be decimated; its economic zone in the Adriatic Sea, estimated to possess vast potential reservoirs of oil and natural gas, has been abandoned to Brussels; its wine exports will be crippled; and its fiscal policy will be subordinated to EU bureaucrats. In short, Croatia will be transformed into a political vassal.

The deal is also bad for Europe and America. Brussels will be assuming another Greece - a debt-laden Balkan nation that will require constant expensive bailouts to stay afloat. So far, EU and American taxpayers have provided more than $1 billion in foreign aid to Croatia. The money has not gone to advance anti-corruption reform measures. Instead, it largely has been misappropriated, misused or simply embezzled. Zagreb's political class has been pushing to join the EU for one reason: to get its dirty hands on the 4 billion euros Brussels is promising as part of Croatia's entry. It is a Faustian bargain that threatens to cost Croatians - and Europeans - dearly.

The surging opposition leftist coalition is expected to win at the ballot box. Composed of former communists and social democrats, it promises to offer the same broad policies of the HDZ - EU membership, high taxes, stifling regulations and big government spending - minus the corruption. Even this will not happen. Left-wing parties control numerous local cities and towns. Yet graft, cronyism and bribery remain pervasive. Nothing will change except party labels and different oligarchs. The Croatian people, however, will continue to bleed.

This is why voters need to overturn the political status quo. It is time to confront Croatia's entrenched corruption and incompetent governing class. There are some promising new parties offering viable options to reverse the country's decline.

One of them is Croatia 21st Century. Its leader, Natasha Srdoc, champions a tax-cutting, pro-growth agenda. She advocates reducing government spending, balancing the budget and unleashing the private economy. She is also one of the few politicians truly serious about tackling Zagreb's culture of corruption. Ms. Srdoc is demanding that any Croatian government official who has amassed unexplained illicit wealth while in office be prosecuted and have his or her assets seized. This alone would smash Croatia's mafia state.

She also is a Euro-skeptic who vows to scuttle Zagreb's deal with Brussels. Her party has close ties to European conservatives. In contrast to the HDZ, Ms. Srdoc is a genuine traditionalist. She is pro-family, pro-life and seeks eventually to end the mass murder of unborn Croatian children by making abortion illegal - but only through a referendum. In short, she poses a mortal threat to Croatia's venal kleptocracy.

Hence, the HDZ has branded her "an enemy of the state." Nearly two dozen of her party's members and supporters have been harassed and intimidated by HDZ and leftist officials. Recently, Aleksandar Radovic, a candidate for Croatia 21st Century and a well-known anti-corruption author, was arrested by government authorities. His crime: He had extensively documented the vast illicit wealth and corruption of Interior Minister Tomislav Karamarko - a thug who uses the police as his personal henchmen. Mr. Radovic is rotting in jail, a political prisoner in a supposedly democratic country.

Having won its war for national independence from Serb-dominated Yugoslavia, Croatia is about to fritter away its hard-won sovereignty. Joining the EU is a fatal mistake. Just ask the Greeks.

*Jeffrey T. Kuhner is a columnist at The Washington Times and president of the Edmund Burke Institute.*

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**We're all paying for Europe's gift to our aristocrats and utility companies**

*Dukes, water companies and wildlife charities will be relieved to know their plunder of farm subsidies under the common agricultural policy can last until at least 2020*

* [http://static.guim.co.uk/static/f76b43f9dcfd761f0ecf7099a127b603b2922118/common/images/icon_reddit.gif](http://www.reddit.com/submit?url=http://www.guardian.co.uk/commentisfree/2011/nov/28/utilities-aristocrats-eu-agricultural-policy&title=)[reddit this](http://www.reddit.com/submit?url=http%3A%2F%2Fwww.guardian.co.uk%2Fcommentisfree%2F2011%2Fnov%2F28%2Futilities-aristocrats-eu-agricultural-policy&title=)
* [Comments (201)](http://www.guardian.co.uk/commentisfree/2011/nov/28/utilities-aristocrats-eu-agricultural-policy#start-of-comments)
* [George Monbiot](http://www.guardian.co.uk/profile/georgemonbiot)
* [guardian.co.uk](http://www.guardian.co.uk), Monday 28 November 2011 20.30 GMT
  + What would you do with £245? Would you: a) use it to buy food for the next five weeks; b) put it towards a family holiday; c) use it to double your annual savings; or d) give it to the Duke of Westminster?

Let me make the case for option D. This year the duke was plunged into relative poverty. Relative, that is, to the three parvenus who have [displaced him from the top of the UK rich list](http://www.bbc.co.uk/news/uk-13325999). (Admittedly he's not so badly off in absolute terms: the value of his properties rose last year, to £7bn.) He's the highest ranked of the British-born people on the list, and we surely have a patriotic duty to keep him there. And he's a splendid example of British enterprise, being enterprising enough to have inherited his land and income from his father.

Well there must be a reason, mustn't there? Why else would households be paying this money – equivalent to five weeks' average spending on food and almost their average annual savings (£296) – to some of the richest men and women in the UK? Why else would this 21st-century tithe, this back-to-front Robin Hood tax, be levied?

I'm talking about the payments we make to Big Farmer through the common agricultural policy. They swallow €55bn (£47bn) a year, or 43% of the European budget. Despite the spending crisis raging through Europe, the policy remains intact. Worse, governments intend to sustain this level of spending throughout the next budget period, from 2014-2020.

Of all perverse public spending in the rich nations, farm subsidies must be among the most regressive. In the EU you are paid according to the size of your lands: the greater the area, the more you get. Except in Spain, nowhere is the subsidy system more unjust than in the UK. According to Kevin Cahill, author of Who Owns Britain, 69% of the land here is owned by 0.6% of the population. It is this group that takes the major payouts. The entire budget, according to the government's database, is shared between just 16,000 people or businesses. Let me give you some examples, beginning with a few old friends.

As chairman of Northern Rock, Matt Ridley oversaw the first run on a British bank since 1878, and helped precipitate the economic crisis that has impoverished so many. This champion of free market economics and his family received £205,000 from the taxpayer last year for owning their appropriately named Blagdon estate. That falls a little shy of the public beneficence extended to Prince Bandar, the Saudi Arabian fixer at the centre of the [Al-Yamamah](http://www.guardian.co.uk/world/2007/jun/07/bae15) corruption scandal. In 2007 the Guardian discovered that he had received a payment of up to £1bn from the weapons manufacturer BAE. He used his hard-earned wealth to buy the Glympton estate in Oxfordshire. For this public service we pay him £270,000 a year. Much obliged to you guv'nor, I'm sure.

But it's the true captains of British enterprise – the aristocrats and the utility companies, equally deserving of their good fortune – who really clean up. The Duke of Devonshire gets £390,000, the Duke of Buccleuch £405,000, the Earl of Plymouth £560,000, the Earl of Moray £770,000, the Duke of Westminster £820,000. The [Vestey family](http://www.guardian.co.uk/theguardian/1999/aug/11/features11.g2) takes £1.2m. You'll be pleased to hear that the previous owner of their Thurlow estate – Edmund Vestey, who died in 2008 – managed his tax affairs so efficiently that [in one year his businesses paid just £10](http://www.guardian.co.uk/business/2008/dec/07/edmund-vestey-tax-will). Asked to comment on his contribution to the public good, he explained: "We're all tax dodgers, aren't we?"

British households, who try so hard to keep the water companies in the style to which they're accustomed, have been blessed with another means of supporting this deserving cause. Yorkshire Water takes £290,000 in farm subsidies, Welsh Water £330,000, Severn Trent £650,000, United Utilities £1.3m. Serco, one of the largest recipients of another form of corporate welfare – the private finance initiative – gets a further £2m for owning farmland.

Among the top blaggers are some voluntary bodies. The RSPB gets £4.8m, the National Trust £8m, the various wildlife trusts a total of £8.5m. I don't have a problem with these bodies receiving public money. I do have a problem with their receipt of public money through a channel as undemocratic and unaccountable as this. I have an even bigger problem with their use of money with these strings attached. For the past year, while researching my book about rewilding, I've been puzzling over why these bodies fetishise degraded farmland ecosystems and are so reluctant to allow their estates to revert to nature. Now it seems obvious. To receive these subsidies, you must farm the land.

As for the biggest beneficiary, it is shrouded in mystery. It's a company based in France called Syral UK Ltd. Its website describes it as a producer of industrial starch, alcohol and proteins, but says nothing about owning or farming any land. Yet it receives £18.7m from the taxpayer. It has not yet answered my questions about how this has happened, but my guess is that the money might take the form of export subsidies: the kind of payments that have done so much to damage the livelihoods of poor farmers in the developing world.

In one respect the government of this country has got it right. It has lobbied the European commission, so far unsuccessfully, for "a very substantial cut to the CAP budget". But hold the enthusiasm. It has also demanded that the EC drop the only sensible proposal in the [draft now being negotiated by member states](http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm): that there should be a limit to the amount a landowner can receive. Our government warns that capping the payments "would impede consolidation" of landholdings. It seems that 0.6% of the population owning 69% of the land isn't inequitable enough.

If subsidies have any remaining purpose it is surely to protect the smallest, most vulnerable farmers. The UK's proposals would ensure that the budget continues to be hogged by the biggest landlords. As for payments for protecting the environment, this looks to me like the option you're left with when you refuse to regulate. The rest of us don't get paid for not mugging old ladies. Why should farmers be paid for not trashing the biosphere? Why should they not be legally bound to protect it, as other businesses are?

In the midst of economic crisis, European governments intend to keep the ultra-rich in vintage port and racehorses at least until 2020. While inflicting the harshest of free market economics upon everyone else, they will oblige us to support a parasitic class of tax avoiders and hedgerow-grubbers, who engorge themselves on the benefactions of the poor.

*•* A fully referenced version of this article can be found at [www.monbiot.com](http://www.monbiot.com/)

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***EU nations offer Greece big bailout in currency crisis***

***By Raf Casert***

***Associated Press***

***Tuesday, November 29, 2011***

Bottom of Form

BRUSSELS — Eurozone ministers offered Greece a $10.7 billion Christmas rescue package Tuesday to stem an immediate cash crisis, yet failed to resolve fears that the common euro currency might be doomed.

The 17 finance ministers insisted they found a veneer of credibility to coat the euro's rescue fund with enough leverage to deal with potential financial crises much bigger than the one facing peripheral Greece. And they called on the International Monetary Fund for resources to help further protect Europe's embattled currency.

"We made important progress on a number of fronts," Jean-Claude Juncker, the eurozone chief, said late Tuesday.

After asserting earlier that the eurozone's rescue fund would be able to leverage up to one $1.3 trillion, the fund's chief remained vague about how beefed up it was after the Tuesday meeting in Brussels. Klaus Regling said it would grow according to demands and market conditions, but assured reporters the fund was more than big enough to deal with Europe's immediate debt problems.

Still, making progress on the fund — a firewall to keep Europe's debt problems from engulfing nation after nation — "shows our complete determination to do whatever it takes to safeguard the financial stability of the euro," Mr. Juncker said.

Italy remained an enormous concern. Carrying five times as much debt as Greece, Italy was battered for the third straight day in the bond markets, seeing its borrowing rates soar to unsustainable levels of 7.56 percent. Investors appear increasingly wary of the country's chances of avoiding default — and making matters worse, the eurozone's third-largest economy is deemed too big for Europe to bail out.

Still, the ministers insisted Italy's new prime minister would come through, saying he has promised to balance the country's budget by 2013.

"We have full confidence that Mario Monti will be able to deliver this program," Mr. Juncker said

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***Europe is Not the United States***

[***Martin Feldstein***](http://www.project-syndicate.org/contributor/1274)

***2011-11-29***

CAMBRIDGE – Europe is now struggling with the inevitable adverse consequences of imposing a single currency on a very heterogeneous collection of countries. But the budget crisis in Greece and the risk of insolvency in Italy and Spain are just part of the problem caused by the single currency. The fragility of the major European banks, high unemployment rates, and the large intra-European trade imbalance (Germany’s $200 billion current-account surplus versus the combined $300 billion current-account deficit in the rest of the eurozone) also reflect the use of the euro.

European politicians who insisted on introducing the euro in 1999 ignored the warnings of economists who predicted that a single currency for all of Europe would create serious problems. The euro’s advocates were focused on the goal of European political integration, and saw the single currency as part of the process of creating a sense of political community in Europe. They rallied popular support with the slogan “One Market, One Money,” arguing that the free-trade area created by the European Union would succeed only with a single currency.

Neither history nor economic logic supported that view. Indeed, EU trade functions well, despite the fact that only 17 of the Union’s 27 members use the euro.

But the key argument made by European officials and other defenders of the euro has been that, because a single currency works well in the United States, it should also work well in Europe. After all, both are large, continental, and diverse economies. But that argument overlooks three important differences between the US and Europe.

First, the US is effectively a single labor market, with workers moving from areas of high and rising unemployment to places where jobs are more plentiful. In Europe, national labor markets are effectively separated by barriers of language, culture, religion, union membership, and social-insurance systems.

To be sure, some workers in Europe do migrate. In the absence of the high degree of mobility seen in the US, however, overall unemployment can be lowered only if high-unemployment countries can ease monetary policy, an option precluded by the single currency.

A second important difference is that the US has a centralized fiscal system. Individuals and businesses pay the majority of their taxes to the federal government in Washington, rather than to their state (or local) authorities.

When a US state’s economic activity slows relative to the rest of the country, the taxes that its individuals and businesses pay to the federal government decline, and the funds that it receives from the federal government (for unemployment benefits and other transfer programs) increase. Roughly speaking, each dollar of GDP decline in a state like Massachusetts or Ohio triggers changes in taxes and transfers that offset about 40 cents of that drop, providing a substantial fiscal stimulus.

There is no comparable offset in Europe, where taxes are almost exclusively paid to, and transfers received from, national governments. The EU’s Maastricht Treaty specifically reserves this tax-and-transfer authority to the member states, a reflection of Europeans’ unwillingness to transfer funds to other countries’ people in the way that Americans are willing to do among people in different states.

The third important difference is that all US states are required by their constitutions to balance their annual operating budgets. While “rainy day” funds that accumulate in boom years are used to deal with temporary revenue shortfalls, the states’ “general obligation” borrowing is limited to capital projects like roads and schools. Even a state like California, seen by many as a poster child for fiscal profligacy, now has an annual budget deficit of just 1% of its GDP and a general obligation debt of just 4% of GDP.

These limits on state-level budget deficits are a logical implication of the fact that US states cannot create money to fill fiscal gaps. These constitutional rules prevent the kind of deficit and debt problems that have beset the eurozone, where capital markets ignored individual countries’ lack of monetary independence.

None of these features of the US economy would develop in Europe even if the eurozone evolved into a more explicitly political union. Although the form of political union advocated by Germany and others remains vague, it would not involve centralized revenue collection, as in the US, because that would place a greater burden on German taxpayers to finance government programs in other countries. Nor would political union enhance labor mobility within the eurozone, overcome the problems caused by imposing a common monetary policy on countries with different cyclical conditions, or improve the trade performance of countries that cannot devalue their exchange rates to regain competitiveness.

The most likely effect of strengthening political union in the eurozone would be to give Germany the power to control the other members’ budgets and prescribe changes in their taxes and spending. This formal transfer of sovereignty would only increase the tensions and conflicts that already exist between Germany and other EU countries.

*Martin Feldstein, Professor of Economics at Harvard, was Chairman of President Ronald Reagan's Council of Economic Advisers and is former President of the National Bureau for Economic Research.*

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***Italy’s debt must be restructured***

[***Nouriel Roubini***](http://blogs.ft.com/the-a-list/?post_type=assanka_guest_author&p=116)

***November 29, 2011Permalink***

It is increasingly clear that Italy’s public debt is unsustainable and needs an orderly restructuring to avert a disorderly default. The eurozone’s wish to exclude private sector involvement from the design of the new European Stability Mechanism is pig-headed – and lacks all credibility.

With public debt at 120 per cent of gross domestic product, real interest rates close to five per cent and zero growth, Italy would need a primary surplus of five per cent of gross domestic product – not the current near-zero – merely to stabilise its debt. Soon real rates will be higher and growth negative. Moreover, the austerity that the European Central Bank and Germany are imposing on Italy will turn recession into depression.

While the technocratic government headed by Mario Monti is much more credible than Silvio Berlusconi’s former government, the constraints it faces are unchanged: debt is unsustainable and the policy to reduce it will make matters worse. That is why markets have shrugged off news of the new government and pushed Italian spreads to yet more unsustainable levels. The government is born wounded and weakened, as Mr Berlusconi can pull the plug on it at any time.

Even if austerity and reforms were eventually to restore debt sustainability, Italy and countries in a similar position would need a lender of last resort to support them and prevent sovereign spreads exploding while they regained market credibility. But Italy’s financing needs for the next twelve months alone are not confined to the €400bn of debt maturing. At this point most investors would dump their entire holdings of Italian debt to any sucker – the ECB, European Financial Stability Facility, IMF or whoever – willing to buy it at current yields. If a lender of last resort appears, Italy’s entire debt stock of €1,900bn will be soon supplied.

So using precious official resources to prevent the unavoidable would simply finance the exit of others. Moreover, there is no official money – some €2,000bn would be needed – to backstop Italy, and soon Spain and possibly Belgium, for the next three years.

Even current attempts to ramp up EFSF resources from the IMF (which is reportedly readying a €400 to €600bn programme to backstop Italy for the next 12-18 months), and from Brics, sovereign wealth funds and elsewhere, are bound to fail if the eurozone’s core is unwilling to increase its own contributions, and if the ECB is unwilling to play the role of an unlimited lender of last resort.

If, as appears likely, Italy remains stuck in an uncompetitive recession and is unable to regain market access in the next twelve months, then even if such large official resources were mobilised, they would be wasted on financing investors’ exit and thus postponing an inevitable debt restructuring that would then be more disorderly.

So Italy’s public debt needs to be reduced now to at worst 90 per cent of GDP from the current 120 per cent. This could be done by offering investors the choice to exchange their securities either for a par bond – with a longer maturity and a low enough coupon to reduce the net present value by 25 per cent – or for a discount bond that has a face value reduction of 25 per cent. The par bond would suit banks that hold bonds to maturity and don’t mark to market. There should be a credible commitment not to pay investors who hold out against participating in the offer – even if this triggers the payment of credit default swaps.

With appropriate regulatory forbearance, it would allow banks to pretend for a while that no losses had occurred and thus give them more time to raise fresh capital. Since about 40 per cent of Italy’s public debt is held by non-residents, a debt restructuring will also imply some burden sharing with foreign creditors.

Some influential figures in Italy have suggested a capital levy, or wealth tax, could achieve the same reduction in public debt. But a debt restructuring is superior. To reduce the debt ratio to 90 per cent of GDP, a wealth tax would need to raise €450bn (30 per cent of GDP). Even if payment of such a levy were spread over a decade that would imply an increase in taxes equivalent to three per cent of GDP for ten years running; the resulting drop in disposable income and consumption would make Italy’s recession a depression.

To reduce such negative effects one would have to focus the tax on the wealthy – raising the rate to ten per cent of their wealth. Leaving aside the political risks of such a move, a debt restructuring is still preferable, as the burden would be shared with foreign investors. It would therefore hit consumption and growth less. Since Italy is running a small primary surplus, a debt restructuring would be feasible even without significant official external financing.

So debt restructuring is preferable to a Plan A that will fail and then cause a bigger, disorderly restructuring or default down the line. Even a debt restructuring would not resolve the problems of lack of growth and outright recession, lack of competitiveness and a large current account deficit. Resolving those requires a real depreciation that may well demand the eventual exit of Italy and other member states from the euro.

But exit can be postponed for a while. Restructuring, however, has to be implemented now. The alternative is much worse.

*The writer is chairman of Roubini Global Economics and professor at the Stern School of Business at New York University*

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***Martin Feldstein***

Martin Feldstein is Professor of Economics at Harvard University and President Emeritus of the National Bureau of Economic Research. He chaired President Ronald Reagan’s Council of Economic Advisers from 1982-1984, and is currently a member of the President's Council on Jobs and Competitiveness, as well as a member of the board of directors of the Council on Foreign Relations, the Trilateral Commission, and the National Committee on United States-China Relations.

***Avoiding a New American Recession***

***30 November 2012***

CAMBRIDGE – The United States may be headed for a recession in 2013. Even if the country avoids going over the “fiscal cliff,” a poorly designed political compromise that cuts the deficit too quickly could push an already weak economy into recession. But a gradual phase-in of an overall cap on tax deductions and exclusions (so-called tax expenditures), combined with reform of entitlement spending, could achieve the long-run fiscal consolidation that America needs without risking a new recession.

The US economy has been limping along with [a growth rate of less than 2% during the past year](http://research.stlouisfed.org/fred2/graph/?g=dfx), with similarly dim prospects in 2013, even without the shock of the fiscal cliff.  That is much too weak a pace of expansion to tolerate the fiscal cliff’s increase in tax rates and spending cuts, which would reduce demand by a total of $600 billion – about 4% of GDP – next year, and by larger sums in subsequent years.

President Barack Obama’s proposed alternative to the fiscal cliff would substantially increase tax rates and limit tax deductions for the top 2% of earners, who now pay more than 45% of total federal personal-income taxes. His budget would also increase taxes on corporations, and would end the current payroll-tax “holiday,” imposing an additional 2% tax on all wage earners.

Together, these changes could lower total demand by nearly 2% of GDP. And the higher marginal tax rates would reduce incentives to work and to invest, further impeding economic activity. All of that could be fateful for an economy that is still struggling to sustain a growth rate of less than 2%.

The [Congressional Budget Office](http://cbo.gov/publication/43262) and the [Federal Reserve](http://www.federalreserve.gov/newsevents/speech/bernanke20121120a.htm) predict that going over the fiscal cliff would cause a recession in 2013, with Fed Chairman Ben Bernanke recently saying that the Fed would be unable to offset the adverse effect on the economy. He could have said the same thing about the fiscal drag that would be created by Obama’s budget proposal.

Although Congressional Republicans rightly object to raising tax rates, they appear willing to raise revenue through tax reform if that is part of a deal that also includes reductions in the long-run cost of the major entitlement programs, Medicare and Social Security. Although some Republicans would like to see revenue increased only by stimulating faster economic growth, that cannot be achieved without the reductions in marginal tax rates and improvements in corporate taxation that the Democrats are unlikely to accept. Raising revenue through tax reform will have to mean reducing the special deductions and exclusions that now lower tax receipts.

The potential recession risk of a budget deal can be avoided by phasing in the base-broadening that is used to raise revenue. A desirable way to broaden the tax base would be to put an overall cap on the amount of tax reduction that each taxpayer can achieve through deductions and exclusions. Such an overall cap would allow each taxpayer to retain all of his existing deductions and exclusions but would limit the amount by which he could reduce his tax liability in this way. An overall cap would also cause many individuals who now itemize deductions to shift to the standard deduction – implying significant simplification in record-keeping and thus an improvement in incentives.

A cap on the tax reductions derived from tax expenditures that is equal to 2% of each individual’s adjusted gross income would raise more than $200 billion in 2013 if applied to all of the current deductions and to the exclusions for municipal-bond interest and employer-paid health insurance. Even if the full deduction for charitable gifts is preserved and only high-value health insurance is regarded as a tax expenditure, the extra revenue in 2013 would be about $150 billion. Over a decade, that implies nearly $2 trillion in additional revenue without any increase in tax rates from today’s levels.

Extra revenue of $150 billion in 2013 would be 1% of GDP, and could be too much for the economy to swallow, particularly if combined with reductions in government spending and a rise in the payroll tax. But the same basic framework could be used by starting with a higher cap and gradually reducing it over several years. A 5% cap on the tax-expenditure benefits would raise only $75 billion in 2013, about 0.5% of GDP; but the cap could be reduced from 5% to 2% over the next few years, raising substantially more revenue when the economy is stronger.

Slowing the growth of government spending for Medicare and Social Security is necessary to prevent a long-term explosion of the national debt or dramatic increases in personal tax rates. Those changes should also be phased in gradually to protect beneficiaries and avoid an economic downturn.

[America’s national debt has more than doubled in the past five years](http://research.stlouisfed.org/fred2/graph/?g=dfC), and is set to rise to more than 100% of GDP over the next decade unless changes in spending and taxes are implemented. A well-designed combination of caps to limit tax expenditures and a gradual slowing of growth in outlays for entitlement programs could reverse the rise in the debt and strengthen the US economy. America’s current budget negotiations should focus on achieving a credible long-term decline in the national debt, while protecting economic expansion in the near term.

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***Nouriel Roubini***

Nouriel Roubini, a professor at NYU’s Stern School of Business and Chairman of Roubini Global Economics, was Senior Economist for International Affairs in the White House's Council of Economic Advisers during the Clinton Administration. He has worked for the International Monetary Fund, the US Federal Reserve, and the World Bank.

***The Year of Betting Conservatively***

***19 November 2012***

NEW YORK – The upswing in global equity markets that started in July is now running out of steam, which comes as no surprise: with no significant improvement in growth prospects in either the advanced or major emerging economies, the rally always seemed to lack legs. If anything, the correction might have come sooner, given disappointing macroeconomic data in recent months.

Starting with the advanced countries, the eurozone recession has spread from the periphery to the core, with France entering recession and Germany facing a double whammy of slowing growth in one major export market (China/Asia) and outright contraction in others (southern Europe). Economic growth in the United States has remained anemic, at 1.5-2% for most of the year, and Japan is lapsing into a new recession. The United Kingdom, like the eurozone, has already endured a double-dip recession, and now even strong commodity exporters – Canada, the Nordic countries, and Australia – are slowing in the face of headwinds from the US, Europe, and China.

Meanwhile, emerging-market economies – including all of the BRICs (Brazil, Russia, India, and China) and other major players like Argentina, Turkey, and South Africa – also slowed in 2012. China’s slowdown may be stabilized for a few quarters, given the government’s latest fiscal, monetary, and credit injection; but this stimulus will only perpetuate the country’s unsustainable growth model, one based on too much fixed investment and savings and too little private consumption.

In 2013, downside risks to global growth will be exacerbated by the spread of fiscal austerity to most advanced economies. Until now, the recessionary fiscal drag has been concentrated in the eurozone periphery and the UK. But now it is permeating the eurozone’s core. And in the US, even if President Barack Obama and the Republicans in Congress agree on a budget plan that avoids the looming “fiscal cliff,” spending cuts and tax increases will invariably lead to some drag on growth in 2013 – at least 1% of GDP. In Japan, the fiscal stimulus from post-earthquake reconstruction will be phased out, while a new consumption tax will be phased in by 2014.

The [International Monetary Fund](http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/text.pdf) is thus absolutely right in arguing that excessively front-loaded and synchronized fiscal austerity in most advanced economies will dim global growth prospects in 2013. So, what explains the recent rally in US and global asset markets?

The answer is simple: Central banks have [turned on their liquidity hoses again](http://www.project-syndicate.org/commentary/quantitative-easing-3--qe3--and-the-problems-of-the-fed-and-ecb-s-expansionary-monetary-policy-by-joseph-e--stiglitz), providing a boost to risky assets. The US Federal Reserve has embraced aggressive, open-ended [quantitative easing (QE)](http://www.project-syndicate.org/commentary/why-qe3-is-unlikely-to-help-us-economic-recovery-by-nouriel-roubini). The European Central Bank’s announcement of its “outright market transactions” program has reduced the risk of a sovereign-debt crisis in the eurozone periphery and a breakup of the monetary union. The Bank of England has moved from QE to CE (credit easing), and the Bank of Japan has repeatedly increased the size of its QE operations.

Monetary authorities in many other advanced and emerging-market economies have cut their policy rates as well. And, with slow growth, subdued inflation, near-zero short-term interest rates, and more QE, longer-term interest rates in most advanced economies remain low (with the exception of the eurozone periphery, where sovereign risk remains relatively high). It is small wonder, then, that investors desperately searching for yield have rushed into equities, commodities, credit instruments, and emerging-market currencies.

But now a global market correction seems underway, owing, first and foremost, to the poor growth outlook. At the same time, the eurozone crisis remains unresolved, despite the ECB’s bold actions and [talk of a banking, fiscal, economic, and political union](http://www.project-syndicate.org/commentary/the-eurozone-s-leadership-crisis-by-carlo-secchi). Specifically, Greece, Portugal, Spain, and Italy are still at risk, while bailout fatigue pervades the eurozone core.

Moreover, political and policy uncertainties – on the fiscal, debt, taxation, and regulatory fronts – abound. In the US, the fiscal worries are threefold: the risk of a “cliff” in 2013, as tax increases and massive spending cuts kick in automatically if no political agreement is reached; renewed partisan combat over the debt ceiling; and a new fight over medium-term fiscal austerity. In many other countries or regions – for example, China, Korea, Japan, Israel, Germany, Italy, and Catalonia – upcoming elections or political transitions have similarly increased policy uncertainty.

Yet another reason for the correction is that valuations in stock markets are stretched: price/earnings ratios are now high, while growth in earnings per share is slackening, and will be subject to further negative surprises as growth and inflation remain low. With uncertainty, volatility, and tail risks on the rise again, the correction could accelerate quickly.

Indeed, there are now greater geopolitical uncertainties as well: the risk of an Iran-Israel military confrontation remains high as negotiations and sanctions may not deter Iran from developing nuclear-weapons capacity; a new war between Israel and Hamas in Gaza is likely; [the Arab Spring is turning into a grim winter](http://www.project-syndicate.org/commentary/libya-s-jihadist-minority-by-omar-ashour) of economic, social, and political instability; and [territorial disputes in Asia](http://www.project-syndicate.org/commentary/east-asia-s-nationalist-fantasy-islands-by-ian-buruma) between China, Korea, Japan, Taiwan, the Philippines, and Vietnam are inflaming nationalist forces.

As consumers, firms, and investors become more cautious and risk-averse, the equity-market rally of the second half of 2012 has crested. And, given the seriousness of the downside risks to growth in advanced and emerging economies alike, the correction could be a bellwether of worse to come for the global economy and financial markets in 2013.

{Meqë konsumatorët, firmat, ashtu edhe investitorët bëhen më të kujdesshëm dhe më pak të ekspozuar rrezikut, tregjet e kapitalit, në gjysmën së dytë të vitit 2012, kanë vënë kreshtë (has crested). Dhe, duke pasur parasysh seriozitetin e rreziqeve-dobësive të rritjes në ekonomitë e avancuara dhe në zhvillim, njësoj, **korrigjimi mund të jetë një parashikim i keqësimit** që do të vijë për ekonominë globale dhe tregjet financiare në vitin 2013.}

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***Benedicta Marzinotto***

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***Europe’s Dysfunctional Growth Compact***

***29 November 2012***

BRUSSELS – Recently, a €10 billion ($13 billion) shortfall in this year’s European Union budget came to light. As a result, the EU cannot reimburse member states for recent unexpected expenditures, including emergency outlays, such as aid to Italian earthquake victims, and spending aimed at boosting economic growth and employment, such as the accelerated absorption of unused Structural and Cohesion Funds. Member states have refused the European Commission’s request for extra contributions to cover the shortfall, causing talks over next year’s budget to collapse.

Meanwhile, negotiations over the [2014-2020 Multiannual Financial Framework (MFF),](http://ec.europa.eu/budget/mff/index_en.cfm) the central-planning instrument for the use of EU funds, have broken down, owing to disagreement over key issues, including the size of the budget and the composition of expenditure. The decision has been postponed until early next year.

The situation has highlighted the ambiguity surrounding the EU budget’s role in European integration. While all EU leaders have advocated using the budget to stimulate economic growth, little action is being taken. This raises doubts about the so-called [“growth compact”](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131388.pdf#page=8) launched by the European Council in June, particularly about the political commitment to mobilize €120 billion quickly by reallocating unused Structural and Cohesion Funds and increasing the European Investment Bank’s lending capacity.

Indeed, although European governments have agreed to encourage faster absorption of EU funds in crisis countries, they have refused to pay into the EU budget to enable the funds’ disbursement. This contradiction signals that national interests continue to prevail in EU budget negotiations, which are often exploited for domestic political gain in member states. Unless a mechanism is introduced that facilitates the rapid disbursement of EU funds, thus insulating the budget from destructive politicization, these funds cannot be used to stimulate growth in times of crisis.

[Not all member states contribute equally to the EU budget](http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000273546.pdf#page=2); some are net contributors, while others are net beneficiaries. At the end of EU-financed investment projects – payments for which are agreed and executed in the annual budget framework – the money is transferred to the beneficiary. Cash to net beneficiaries is paid in by net contributors.

One country’s inflow of EU money is thus another country’s outflow – and these are grants, not loans. As a result, agreement every seven years on overall expenditures is inadequate to preclude conflict on annual budgets.

Nonetheless, steps can be taken to prevent political deadlock in budget negotiations, while increasing the budget’s flexibility so that it can be used to stimulate growth. For example, some leveraging of the budget could be allowed, although this would spark controversy, given that EU treaties require that the budget remains balanced at all times.

But the EU budget has already enabled an indirect form of leveraging: the European Commission’s use of implicit budget guarantees to raise capital on financial markets. These funds are used to provide financial assistance to non-eurozone EU countries through the [Medium-Term Financial Assistance Facility](http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/l25005_en.htm), to eurozone countries through the now-expired European Financial Stabilization Mechanism, and to partner third countries.

Between the MTFA, the EFSM, and payments to third countries, the total exposure this year is €70.5 billion. Some borrowing over the seven-year MFF period may be possible, while upholding the medium-term objective of a balanced budget.

Such leveraging of the EU budget would complement the recently established [European Stabilization Mechanism](http://www.esm.europa.eu/) (the successor to the EFSM) and the MTFA. Countries receiving assistance should be given the option of applying for an anticipated disbursement of EU funds. Following a request by a member state, the Commission would be entitled to borrow on capital markets under the implicit EU budget guarantee, with the maximum amount determined by the size of the country’s unused (pre-allocated) Structural and Cohesion Funds. The capital would be repaid in annual installments as the funds become available through the EU budget, while the national co-financing rate would apply to interest payments.

This framework would reduce incentives for using annual EU budget negotiations to advance political agendas. Net contributors would be locked into a relationship with the markets – a convincing creditor. At the same time, imposing conditionality on this kind of disbursement would enhance legitimacy, as opposed to the current framework, in which beneficiaries seek entitlements. Indeed, all EU countries – not just eurozone members – would benefit from such a framework.

Such an initiative could co-exist with European Council President Herman Van Rompuy’s proposal to create a risk-sharing mechanism only for eurozone countries. The revamped growth compact would more effectively allocate European resources and increase the flexibility of permanent transfers from rich to poor countries – provided that the money is used for productive investment. Van Rompuy’s budget would also help to stabilize the eurozone in the event that asymmetric shocks require temporary transfers from unaffected to crisis-stricken countries.

In fact, the two instruments may well be complementary in eurozone countries. Crises are typically associated with a drop not only in actual growth, but also in a country’s growth potential, owing to deferred investment. A risk-sharing facility could limit the decline in actual growth after a crisis, while prompt EU-financed investment would prevent a country from shifting to a lower growth path.

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***Kenneth Rogoff***

Kenneth Rogoff, Professor of Economics and Public Policy at Harvard University and recipient of the 2011 Deutsche Bank Prize in Financial Economics, was the chief economist of the International Monetary Fund from 2001 to 2003. His most recent book, co-authored with Carmen M. Reinhart, is *This Time is Different: Eight Centuries of Financial Folly*.

***Innovation Crisis or Financial Crisis?***

***04 December 2012***

CAMBRIDGE – As one year of sluggish growth spills into the next, there is growing debate about what to expect over the coming decades. Was the global financial crisis a harsh but transitory setback to advanced-country growth, or did it expose a deeper long-term malaise?

Recently, a few writers, including internet entrepreneur [Peter Thiel](http://www.foundersfund.com/#/team/peter-thiel) and political activist and former world chess champion [Garry Kasparov](http://www.kasparov.com/), have espoused a fairly radical interpretation of the slowdown. In a [forthcoming book](http://www.amazon.com/The-Blueprint-Reviving-Innovation-Rediscovering/dp/0393081478/ref=sr_1_1?ie=UTF8&qid=1353691549&sr=8-1&keywords=peter+thiel), they argue that the collapse of advanced-country growth is not merely a result of the financial crisis; at its root, they argue, these countries’ weakness reflects secular stagnation in technology and innovation. As such, they are unlikely to see any sustained pickup in productivity growth without radical changes in innovation policy.

Economist Robert Gordon takes this idea even further. [He argues](http://faculty-web.at.northwestern.edu/economics/gordon/Is%20US%20Economic%20Growth%20Over.pdf) that the period of rapid technological progress that followed the Industrial Revolution may prove to be a 250-year exception to the rule of stagnation in human history. Indeed, he suggests that today’s technological innovations pale in significance compared to earlier advances like electricity, running water, the internal combustion engine, and other breakthroughs that are now more than a century old.

I [recently debated](http://www.oxfordmartin.ox.ac.uk/videos/view/210) the technological stagnation thesis with Thiel and Kasparov at Oxford University, joined by encryption pioneer [Mark Shuttleworth](http://www.markshuttleworth.com/biography). Kasparov pointedly asked what products such as the iPhone 5 really add to our capabilities, and argued that most of the science underlying modern computing was settled by the seventies. Thiel maintained that efforts to combat the recession through loose monetary policy and hyper-aggressive fiscal stimulus treat the wrong disease, and therefore are potentially very harmful.

These are very interesting ideas, but the evidence still seems overwhelming that the drag on the global economy mainly reflects the aftermath of a deep systemic financial crisis, not a long-term secular innovation crisis.

There are certainly those who believe that the wellsprings of science are running dry, and that, when one looks closely, the latest gadgets and ideas driving global commerce are essentially derivative. But the vast majority of my scientist colleagues at top universities seem awfully excited about their projects in nanotechnology, neuroscience, and energy, among other cutting-edge fields. They think they are changing the world at a pace as rapid as we have ever seen. Frankly, when I think of stagnating innovation as an economist, I worry about how overweening monopolies stifle ideas, and how recent changes extending the validity of patents have exacerbated this problem.

No, the main cause of the recent recession is surely a global credit boom and its subsequent meltdown. The profound resemblance of the current malaise to the aftermath of past deep systemic financial crises around the world is not merely qualitative. The footprints of crisis are evident in indicators ranging from unemployment to housing prices to debt accumulation. It is no accident that the current era looks so much like what followed dozens of deep financial crises in the past.

Granted, the credit boom itself may be rooted in excessive optimism surrounding the economic-growth potential implied by globalization and new technologies. As Carmen Reinhart and I emphasize in our book *This Time is Different*, such fugues of optimism often accompany credit run-ups, and this is hardly the first time that globalization and technological innovation have played a central role.

Attributing the ongoing slowdown to the financial crisis does not imply the absence of long-term secular effects, some of which are rooted in the crisis itself. Credit contractions almost invariably hit small businesses and start-ups the hardest. Since many of the best ideas and innovations come from small companies rather than large, established firms, the ongoing credit contraction will inevitably have long-term growth costs. At the same time, unemployed and underemployed workers’ skill sets are deteriorating. Many recent college graduates are losing as well, because they are less easily able to find jobs that best enhance their skills and thereby add to their long-term productivity and earnings.

With cash-strapped governments deferring urgently needed public infrastructure projects, medium-term growth also will suffer. And, regardless of technological trends, other secular trends, such as aging populations in most advanced countries, are taking a toll on growth prospects as well. Even absent the crisis, countries would have had to make politically painful adjustments to pension and health-care programs.

Taken together, these factors make it easy to imagine trend GDP growth being one percentage point below normal for another decade, possibly even longer. If the Kasparov-Thiel-Gordon hypothesis is right, the outlook is even darker – and the need for reform is far more urgent. After all, most plans for emerging from the financial crisis assume that technological progress will provide a strong foundation of productivity growth that will eventually underpin sustained recovery. The options are far more painful if the pie has ceased growing quickly.

So, is the main cause of the recent slowdown an innovation crisis or a financial crisis? Perhaps some of both, but surely the economic trauma of the last few years reflects, first and foremost, a financial meltdown, even if the way forward must simultaneously treat other obstacles to long-term growth.

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***Andres Velasco***

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***Europe’s Debt-Relief Calculus***

***13 December 2012***

SANTIAGO – Europe has long been menaced by the threat of two crises. The first would erupt with a successful speculative attack on a large eurozone country’s bonds, immediately jeopardizing the single currency’s survival. European Central Bank President Mario Draghi’s vow to do “whatever it takes” to prevent a sovereign default in the eurozone seems to have diminished that danger – at least for now.

The other looming danger is a growth crisis – a threat that has become increasingly serious. The ECB’s most recent [macroeconomic forecast](http://www.ecb.int/pub/pdf/other/eurosystemstaffprojections201212en.pdf), which cut expected GDP growth for both 2012 and 2013, makes the threat all too clear: The eurozone will certainly contract this year, and grow by just 0.3%, at best, next year.

Europe persistently undershoots its growth targets because European policymakers persistently underestimate fiscal multipliers, pursuing austerity instead. And slower growth means lower revenues, which imply larger deficits and heavier debt burdens – at which point, as [Wolfgang Munchau](http://www.ft.com/intl/cms/s/0/f57117a2-2440-11e2-94d0-00144feabdc0.html#axzz2Er7YkthJ) of the*Financial Times* and others have stressed, the entire belt-tightening exercise begins to look self-defeating.

This is all pretty worrisome. But things could get worse. The problem is not just that slow growth is driving up debt levels. It is also increasingly plausible that the debt overhang is itself becoming the cause of slow growth.

Few people want to go down that route, because it leads directly to the question of debt forgiveness. But the issue can no longer be ignored – and not just in the case of Greece.

The concept of a debt overhang has been around forever, but it became prominent during the Latin American debt crisis of the 1980’s. Like many aspects of that crisis, it is applicable to Europe’s situation today.

A debt overhang exists when a country’s debt is large enough that the benefits of adjustment and growth go entirely to the creditors. As the Nobel laureate economist Paul Krugman pointed out a quarter-century ago, a country in this situation will be unwilling to undertake additional painful adjustment, because it gets nothing in return. And, because the proceeds of any new investment will be taxed away to service existing obligations, the debt overhang discourages private investment and growth.

If the disincentive is large enough, then a larger debt burden may cause the country’s repayment capacity to fall. This gives rise to a debt-relief Laffer curve. For low levels of debt, increasing the debt burden increases the flow of payments that creditors get; but this relationship is reversed once the debt volume crosses a certain threshold. Reducing the face value of the debt is good not just for debtor countries on the “wrong side” of the curve; it is also good for creditors, who stand to get more of their money back.

But, while this neat theoretical construct clarifies the problem, figuring out where a country lies on its debt-relief Laffer curve is no easy matter. Many doctoral dissertations were written on this issue during the Latin American debt crisis of the 1980’s.

In retrospect, two things seem clear. First, Latin American countries did not start growing again until debt had been substantially reduced through a series of initiatives – the most important being the Brady Plan of 1989, under which Latin American countries enacted reforms in exchange for debt relief. Second, creditors who stayed in – by swapping old obligations either for new Brady bonds or for local equity – typically did very well.

Skeptics will reply that Europe is not Latin America, and that the interest rates levied on European governments today are much lower than what Argentina or Mexico had to pay back then. Perhaps. But many European countries are more indebted than their Latin American counterparts were.

France’s public debt is 90% of GDP and rising, and five European countries’ debt/GDP ratios are [above 100%](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-24102012-AP/EN/2-24102012-AP-EN.PDF#page=2). Latin American countries had to seek debt reduction when their debt burdens were smaller. And the recent spike in the interest-rate spread on Italian government bonds should remind optimists that, with sovereign debt so high, many things can go wrong at any time.

More and more Europeans are coming around to the view that Greece needs to have its debt cut yet again, and that this time official claims on Greece should be cut as well. But few Europeans today believe that Italy, Spain or Portugal, much less France, will need debt reduction. Give them time. It was not so long ago that few Europeans could imagine a euro crisis.

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***Dani Rodrik***

Dani Rodrik is Professor of International Political Economy at Harvard University’s Kennedy School of Government and a leading scholar of globalization and economic development. His most recent book is *The Globalization Paradox: Democracy and the Future of the World Economy*.

***Global Capital Rules***

***13 December 2012***

CAMBRIDGE – It’s official. The [International Monetary Fund](http://www.imf.org/external/np/pp/eng/2012/111412.pdf) has put its stamp of approval on capital controls, thereby legitimizing the use of taxes and other restrictions on cross-border financial flows.

Not long ago, the IMF pushed hard for countries – rich or poor – to open up to foreign finance. Now it has acknowledged the reality that financial globalization can be disruptive – inducing financial crises and economically adverse currency movements.

So here we are with yet another twist in the never-ending saga of our love/hate relationship with capital controls.

Under the classical Gold Standard that prevailed until 1914, free capital mobility had been sacrosanct. But the turbulence of the interwar period convinced many – most famously John Maynard Keynes – that an open capital account is incompatible with macroeconomic stability.  The new consensus was reflected in the Bretton Woods agreement of 1944, which enshrined capital controls in the IMF’s [Articles of Agreement](http://www.imf.org/External/Pubs/FT/AA/index.htm). As Keynes said at the time, “what used to be heresy is now endorsed as orthodoxy.”

By the late 1980’s, however, policymakers had become re-enamored with capital mobility. The European Union made capital controls illegal in 1992, and the Organization for Economic Cooperation and Development enforced free finance on its new members, paving the way for financial crises in Mexico and South Korea in 1994 and 1997, respectively. The IMF adopted the agenda wholeheartedly, and its leadership sought (unsuccessfully) to amend the Articles of Agreement to give the Fund formal powers over capital-account policies in its member states.

As long as it was developing countries that were whipsawed by global finance, it was fashionable to blame the victim. The IMF and Western economists argued that governments in Mexico, South Korea, Brazil, Turkey, and elsewhere had not adopted the policies – prudential regulations, fiscal restraint, and monetary controls – needed to take advantage of capital flows and prevent crises. The problem was with domestic policies, not with financial globalization, so the solution lay not in controls on cross-border financial flows, but in domestic reforms.

Once the advanced countries became victims of financial globalization, in 2008, it became harder to sustain this line of argument. It became clearer that the problem lay with instability in the global financial system itself – the bouts of euphoria and bubbles, followed by the sudden stops and sharp reversals that are endemic to unsupervised and unregulated financial markets. The IMF’s recognition that it is appropriate for countries to try to insulate themselves from these patterns is therefore welcome – and comes none too soon.

But we should not exaggerate the extent of the IMF’s change of heart. The Fund still regards free capital mobility as an ideal toward which all countries will eventually converge. This requires only that countries achieve the threshold conditions of adequate “financial and institutional development.”

The IMF treats capital controls as a last resort, to be deployed under a rather narrow set of circumstances – when other macro, financial, or prudential measures fail to stem the tide of inflows, the exchange rate is decidedly overvalued, the economy is overheating, and foreign reserves are already adequate. So, while the Fund lays out an “integrated approach to capital flow liberalization,” and specifies a detailed sequence of reforms, there is nothing remotely comparable on capital controls and how to render them more effective.

This reflects over-optimism on two fronts: first, about how well policy can be fine-tuned to target directly the underlying failures that make global finance unsafe; and, second, about the extent to which convergence in domestic financial regulations will attenuate the need for cross-border management of flows.

The first point can be best seen using an analogy with gun controls. Guns, like capital flows, have their legitimate uses, but they can also produce catastrophic consequences when used accidentally or placed in the wrong hands. The IMF’s reluctant endorsement of capital controls resembles the attitude of gun-control opponents: policymakers should target the harmful behavior rather than bluntly restrict individual freedoms. As America’s gun lobby puts it, “Guns don’t kill people; people kill people.” The implication is that we should punish offenders rather than restrict gun circulation. Similarly, policymakers should ensure that financial-market participants fully internalize the risks that they assume, rather than tax or restrict certain types of transactions.

But, as Princeton economist Avinash Dixit likes to say, the world is always second-best at best.  An approach that presumes that we can identify and directly regulate problematic behavior is unrealistic. Most societies control guns directly because we cannot monitor and discipline behavior perfectly, and the social costs of failure are high. Similarly, caution dictates direct regulation of cross-border flows. In both cases, regulating or prohibiting certain transactions is a second-best strategy in a world where the ideal may be unattainable.

The second complication is that, rather than converging, domestic models of financial regulation are multiplying, even among advanced countries with well-developed institutions. Along the efficiency frontier of financial regulation, one needs to consider the tradeoff between financial innovation and financial stability. The more of one we want, the less of the other we can have. Some countries will opt for greater stability, imposing tough capital and liquidity requirements on their banks, while others may favor greater innovation and adopt a lighter regulatory touch.

Free capital mobility poses a severe difficulty here. Borrowers and lenders can resort to cross-border financial flows to evade domestic controls and erode the integrity of regulatory standards at home. To prevent such regulatory arbitrage, domestic regulators may be forced to take measures against financial transactions originating from jurisdictions with more lax regulations.

A world in which different sovereigns regulate finance in diverse ways requires traffic rules to manage the intersection of separate national policies. The assumption that all countries will converge on the ideal of free capital mobility diverts us from the hard work of formulating those rules.

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[Fiscal Cliff Deal Averts the Crisis… But Now What?](http://moneymorning.com/2013/01/02/fiscal-cliff-deal-averts-the-crisis-but-now-what/)

JANUARY 2, 2013

[**Editor's Note**: A last-minute deal means the U.S. has avoided the fiscal cliff. Since the agreement was completed after we had gone to press, we have decided to follow up today's issue with a special edition from Keith Fitz-Gerald that breaks down the deal...]

**BY KEITH FITZ-GERALD, Chief Investment Strategist, Money Morning**

**[Singapore]** - It's late Tuesday evening and I'm about to go on air with CNBC Asia in Singapore regarding the impact of the [Fiscal Cliff](http://moneymorning.com/tag/fiscal-cliff-2013/) bill which passed minutes ago after Republican leaders decided not to try and tack on amendments nor engage in further bickering.  
  
Passed by a 257 to 167 vote, the bill is now headed to the White House and a draft may even be on the President's desk by the time you read this.  
  
So I'll have to write quickly.

**Here's the scoop on the fiscal cliff deal:**

1. The Bush-era income tax cuts become permanent for the majority of workers while they expire for so-called "top" earners. The break is at $400,000 for individuals and $450,000 for couples. That's approximately double Obama's campaign level and 80% more than his preferred "married couples rate" according to various sources. **Dividend tax rates and capital gains rates for top earners will rise to 23.8%** while personal exemptions and itemized deductions that are presently in force expire for individuals earning more than $250,000 and married couples earning more than $300,000. The alternative minimum tax is now fixed to avoid snagging still more middle class households.
2. Expanded unemployment benefits will continue.
3. Automatic spending cuts are deferred for two months.
4. A two percent payroll tax cut expires.
5. Estate taxes will get an inflation indexed exemption of $5 million or more and taxes will top out at 40%.

**Key takeaways on the agreement:**

1. Once again Washington is kicking the can down the road. While it's already being played up by both parties as an example of bipartisanship, it's really a load of hooey. The bill merely puts off decisions for yet another round of fiscal follies a few months from now.
2. Instead of working diligently for the past year on a meaningful tax bill overhaul and a serious fix to entitlement programs, our leaders dithered, bickered and postured until the last minute. It's an irresponsible and disgusting abuse of the public trust. Anybody trying this kind of nonsense in the private sector would be summarily fired for cause.
3. The deal actually raises taxes on 77% of American households according to the CBO and the non-partisan Tax Policy Center. That's an appalling failure in my book. The top 1%, incidentally, will pay $73,633 more in taxes on average. That's also according to the Tax Policy Center. It will also add another $4 trillion to deficits over the next decade. How is this a win for America?

**My take on the markets:**

The fiscal cliff bill passed only a few minutes ago so traders around the world are just beginning to react. However, I've already talked with key contacts in Hong Kong, Tokyo, Frankfurt and London to gauge what we might expect here at home come Wednesday morning.

**I see three distinct possibilities:**

First, as I suggested last week, the fiscal cliff deal is likely to prompt a short-term rally because it eliminates short-term worries. The problem is that nobody knows what short term means. Do not forget that the fiscal cliff is only one of three upcoming problems in our ongoing fiscal madness. There's still the debt ceiling, sequestration and the complete lack of a budget to contend with. In other words, it's on to the next crisis now.  
  
Second, Asian markets are already enjoying a strong run this morning (your evening) as I write this. European futures are on the move, too. But, professional traders may see right through this and, in fact, begin selling the news leading to a down day when U.S. markets close Wednesday afternoon. The question at hand is whether or not they feel confident enough to remain "risk-on" or pick up their toys and seek safety while selling into strength.  
  
Third, we could get a weak opening but then the pros go bargain hunting based on "oversold" conditions and a short "burn." Many traders, in fact, sold heavily into New Year 's Eve and now they've got to unwind those short positions in a hurry if Asia and Europe continue to take things higher between now when I am writing to you and early Wednesday morning when you read this.

**How the fiscal cliff deal impacts individual investors:**

For the most part, this will be a non-event. Yes...a non-event, especially if you are following along with a disciplined investment approach like the 50-40-10 Strategy I advocate in our sister publication, the Money Map Report.  
  
While there is no question we will face yet more financial hurdles, I don't see any of the changes being larger than the potential gains associated with 3-5-10 year growth targets when it comes to the "glocal" stocks we prefer. So barring a massive sell off that hits our trailing stops, expect dips to remain consistent with the 10% rise I see ahead for the S&P 500 in 2013. Whether or not it finishes at that level remains to be seen but that's a story for another time particularly as we get a clearer look into the Q4 earnings season which kicks off shortly.  
  
I envision gold having another solid year along with other commodities as it becomes clear that the market will place a premium on capital preservation as a result of yet more fiscal nonsense - deal or no deal.  
  
And finally, I actually see the [U.S. Dollar](http://moneymorning.com/tag/us-dollar/) strengthening following this evening's news. It won't be immediate; if anything the dollar will drop a bit on news following the fiscal cliff deal. But down the road a bit things will be different when traders begin to focus on yet another looming downgrade and the comparative safety of the US greenback.  
  
It's not that the fiscal cliff bill is anything even remotely resembling financially astute management, but rather that it's "business as usual."  
  
And that means the dollar, which is the best-looking horse in the glue factory is alive and, evidently, still kicking. 

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**Sustainable and Responsible Investing Facts**

**Sustainable and Responsible Investing** (SRI) is a broad-based approach to investing that now encompasses an estimated $3.07 trillion out of $25.2 trillion in the U.S. investment marketplace today. SRI recognizes that corporate responsibility and societal concerns are valid parts of investment decisions. SRI considers both the investor's financial needs and an investment’s impact on society. SRI investors encourage corporations to improve their practices on environmental, social, and governance issues. You may also hear SRI-like approaches to investing referred to as mission investing, responsible investing, double or triple bottom line investing, ethical investing, sustainable investing, or green investing.

As a result of its investing strategies, SRI also works to enhance the bottom lines of the companies in question and, in so doing, delivers more long-term wealth to shareholders. In addition, SRI investors seek to build wealth in underserved communities worldwide. With SRI, investors can put their money to work to build a more sustainable world while earning competitive returns both today and over time.

Sustainable and responsible investors include individuals and also institutions, such as corporations, universities, hospitals, foundations, insurance companies, public and private pension funds, nonprofit organizations, and religious institutions. Institutional investors represent the largest and fastest growing segment of the SRI world

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***The Unstarvable Beast (bisha e uritur)***

***02 January 2013***

***Kenneth Rogoff***

Kenneth Rogoff, Professor of Economics and Public Policy at Harvard University and recipient of the 2011 Deutsche Bank Prize in Financial Economics, was the chief economist of the International Monetary Fund from 2001 to 2003. His most recent book, co-authored with Carmen M. Reinhart, is *This Time is Different: Eight Centuries of Financial Folly*.

CAMBRIDGE – As the world watches the United States grapple with its fiscal future, the contours of the battle reflect larger social and philosophical divisions that are likely to play out in various guises around the world in the coming decades. There has been much discussion of how to cut government spending, **but too little attention has been devoted to how to make government spending more effective**. And yet, without more creative approaches to providing government services, their cost will continue to rise inexorably over time.

Any service-intensive industry faces the same challenges. Back in the 1960’s, the economists William Baumol and William Bowen wrote about the “cost disease” that plagues these industries. The example they famously used was that of **a Mozart string quartet**, which requires the same number of musicians and instruments in modern times as it did in the nineteenth century. Similarly, it takes about the same amount of time for a teacher to grade a paper as it did 100 years ago. Good plumbers cost a small fortune, because here, too, the technology has evolved very slowly.

**Why does slow productivity growth translate into high costs?** The problem is that service industries ultimately have to compete for workers in the same national labor pool as sectors with fast productivity growth, such as finance, manufacturing, and information technology. Even though the pools of workers may be somewhat segmented, there is enough overlap that it forces service-intensive industries to pay higher wages, at least in the long run.

**The government, of course, is the consummate service-intensive sector**. Government employees include teachers, policemen, trash collectors, and military personnel.

Modern schools look a lot more like those of 50 years ago than do modern manufacturing plants. And, while military innovation has been spectacular, it is still very labor-intensive. If people want the same level of government services relative to other things that they consume, government spending will take up a larger and larger share of national output over time.

Indeed, not only has government spending been rising as a share of income; so, too, has spending across many service sectors. Today, the service sector, including the government, accounts for more than 70% of national income in most advanced economies.

Agriculture, which in the 1800’s accounted for more than half of national income, has shrunk to just a few percent. Manufacturing employment, which accounted for perhaps a third of jobs or more before World War II, has shrunk dramatically. ***In the US, for example, the manufacturing sector employs less than 10% of all workers.*** So, even as economic conservatives demand spending cuts, there are strong forces pushing in the other direction.

Admittedly, the problem is worse in the government sector, where productivity growth is much slower even than in other service industries. Whereas this might reflect the particular mix of services that governments are asked to provide, that can hardly be the whole story.

Surely, part of the problem is that governments use employment not just to provide services, but also to make implicit transfers. Moreover, government agencies operate in many areas in which they face little competition – and thus little pressure to innovate.

Why not bring greater private-sector involvement, or at least competition, into government? Education, where the power of modern disruptive technologies has barely been felt, would be a good place to start. Sophisticated computer programs are becoming quite good at grading middle-school essays, if not quite up to the standards of top teachers.

Infrastructure is another obvious place to expand private-sector involvement. Once upon a time, for example, it was widely believed that drivers on privately operated roads would constantly be waiting to pay tolls. Modern transponders and automatic payment systems, however, have made that a non-issue.

But one should not presume that a shift to greater private-sector provision of services is a panacea[[7]](#footnote-7). There would still be a need for regulation, especially where monopoly or near-monopoly is involved. And there would still be a need to decide how to balance efficiency and equity in the provision of services. Education is clearly an area in which any country has a strong national interest in providing a level playing field.

As US President in the 1980’s, the conservative icon Ronald Reagan described his approach to fiscal policy as “starve the beast[[8]](#footnote-8)”: **cutting taxes will eventually force people to accept less government spending**. In many ways, his approach was a great success. But government spending has continued to grow, because voters still want the services that government provides. Today, it is clear that reining in government also means finding ways to shape incentives so that innovation in government keeps pace with innovation in other service sectors.

Without more ideas about how to innovate in the provision of government services, battles such as one sees playing out in the US today can only become worse, as voters are increasingly asked to pay more for less. Politicians can and will promise to do a better job, but they cannot succeed unless we identify ways to boost government services’ efficiency and productivity.

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***Ana Palacio***

Ana Palacio, a former Spanish foreign minister and former Senior Vice President of the World Bank, is a member of the Spanish Council of State.

***Europe’s Narrative Struggle (Lufta narrative e Europes)***

***02 January 2013***

MADRID – The start of any year invariably prompts stocktaking, and 2012 certainly offers much to consider: the dramatic events in the Middle East, leadership change in China, and the brinkmanship of America’s budget debate. All were high in importance, if not always in popular interest. That seems especially true of the painful and excruciatingly prolonged – indeed, still ongoing – **process of saving the euro.**

The euro’s survival in 2012 – if only by the skin of its teeth – confounded skeptics who forecast Greece’s exit from the eurozone and the single currency’s collapse by the end of the summer. Indeed, the European Union’s future still seems acutely uncertain, owing mainly to a mismatch between rhetoric and reality.

In the realm of reality, the latest of many “grand” summits in Brussels has left a yawning gap between Europe and a fiscal union, as heads of state stripped much of the substance from the blueprint proposed by Herman Van Rompuy, the president of the European Council, and developed by the European Commission.

Nonetheless, concrete and positive steps toward institutional consolidation – though far from achieving the ambitions of some – have been taken. The creation of the [European Stability Mechanism](http://www.esm.europa.eu/), the European Central Bank's new supervisory role, and the ECB’s purchases of sovereign bonds over the course of the last year have provided much-needed relief to Europe’s beleaguered peripheral economies. Moreover, Europe is one step closer to a full-fledged banking union.

The main impediment to further progress is that two competing narratives have emerged to explain Europe’s economic travails and lay out a path forward. One centers on the eurozone's structural flaws and aims at strengthening the institutional framework, whereas the other highlights faulty domestic policies and focuses on austerity. Alarmingly, the resulting political debate has degenerated into a shrill cacophony of moral righteousness, finger-pointing, scapegoating, and stereotyping.

In fact, though often portrayed as irreconcilable opposites, the two approaches to resolving the euro’s problems are complementary – indeed, essential – components of any realistic approach to ensuring the eurozone’s future. Likewise, neither narrative alone can provide a vision for the EU; the gap between them can be filled only by trust.

Greece, Italy, Spain, Portugal, and even France need to control their deficits and streamline debt. But no degree of austerity on its own will enable Europe’s southern economies to get back on their feet.

Consider Greece. Anticipating desertion by Europe and convinced that painful budget cuts and repayment will benefit only its creditors, the country has ring-fenced itself, and has been sapped of all motivation to undertake the reforms dictated by Brussels. Meanwhile, Germans regard economic transfers to the South as a moral-hazard problem that no European political agreement could resolve. Seeing only one side of the equation, public opinion has become polarized between northern and southern Europe, perpetuating a vicious cycle of mistrust.

It would be equally wrong to imagine that institutional changes alone will fix Europe’s problems. While an integrated financial framework for Europe is taking shape, daunting decisions regarding the design of a European resolution mechanism need to be worked out. A banking union will undoubtedly entail significant encroachments on sovereignty (for example, decisions to close banks, distribute losses, or cut workforces at the national level), which, unless accompanied by progress toward a political union, will generate a crisis of legitimacy.

Thus, addressing Europe’s serious economic issues requires wading into the deep waters of the political imagination. So far, however, policies aimed at shoring up the euro have been narrowly technical, in an effort to isolate Europe’s financial travails from popular discontent over its direction. That debate has been left to fester, serving as a dangerously dysfunctional pressure valve for turbulent and frustrated citizens across Europe.

Confronted with the reality of disgruntled electorates, pundits are quick to bemoan the “democratic deficit” of the Union’s institutions. Lately, they have been pleading for the direct election of the European Commission president, the transformation of the Council of Ministers into a form of second legislative chamber, or for the establishment of Europe-wide political parties to contest elections to the European Parliament.

None of these initiatives would work, however, owing to a simple, inconvenient truth: to this day, Europeans view each other in “us versus them” terms. Europe’s common institutions – both old and newly created – can survive in the long run only if a common European identity materializes to underpin them.

The emergence of such an identity depends on politicians’ ability to communicate to their fellow citizens the Union’s real advantages and the bleak prospects of nation-states that try to go it alone*.*In a “post-European world,” Europe is globally relevant only when united. The single market is the paramount example at one extreme, with defense – plagued by duplication and lacunae between EU countries – at the other.

Although politicians and voters are equally unwilling to admit it, the EU has reached a fork in the road. One route leads to further integration, while the other implies a return to national sovereignty; navigating the former will require great effort, whereas the latter is a relatively straight downward path. Ultimately, the EU’s future – if it has any future at all – depends on constructing a coherent narrative that articulates that choice explicitly.

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**ECONOMIC AND FINANCIAL STRUCTURE OF THE EUROPEAN AREA (STRUKTURA EKONOMIKE DHE FINANCIARE E HAPËSIRËS EUROPEIANE)**

http://www.ecb.int/

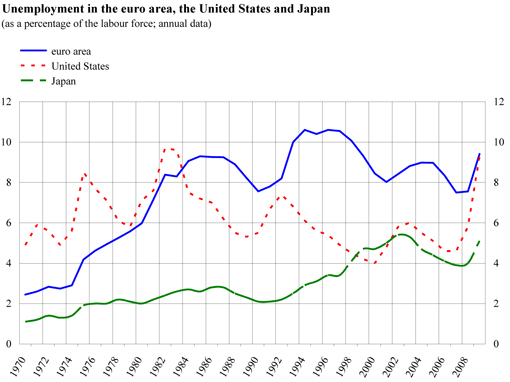
1. **KEY CHARACTERISTICS OF THE EUROPEAN ECONOMY** 
   1. **Key characteristics**

Compared with the economies of its individual member countries, the euro area is a large and much more closed economy. In terms of its share of world GDP it is the world’s largest economy after that of the United States.

As in other highly developed economies, the service sector has the largest share of total output, followed by the industrial sector, while the share held by agriculture, fishing and forestry is relatively small. In terms of population, the euro area economy is in fact the world’s largest, with more than 300 million people.

* + 1. **Labour market**

The unemployment rate in the euro area reached very high levels in the 1980s and 1990s. Having fallen back during the initial years of EMU, it has risen markedly since the recession began. By December 2009, the unemployment rate was 9.9%, corresponding to about 15.5 million unemployed persons across the euro area. Euro area labour markets are also characterised by a relatively low labour force participation rate in comparison with other countries. In particular, young and older Europeans as well as women participate to a relatively low extent. The euro area's high unemployment rate combined with the low participation rate results in a relatively low employment rate in the euro area. In turn, taken together with the relatively low number of hours worked per employed person this is one of the main reasons why GDP per capita is lower in the euro area than, for instance, in the United States.

  
[back to top](http://www.ecb.int/mopo/eaec/labour/html/index.en.html#skipnavigation) [http://www.ecb.int/shared/img/null.gif](http://www.ecb.int/home/html/qrcode.en.html)++++++++++++++++++++++++++++++++++++++++++++++++++++++++++++

# Economic policy

## Economic reforms

Economic reforms in the goods, capital and labour markets which remove barriers to competition and increase market flexibility are key for the smooth functioning of the Economic and Monetary Union (EMU). Such reforms are key to raise productivity and employment in the euro area, thereby supporting the growth potential of the euro area in the long run. At the same time, through enhancing competition and fostering innovation, such reforms will contribute to lowering price pressure. By making the euro area markets more flexible, such reforms also help countries to adapt faster and at lower cost to economic shocks. The case for structural economic reforms is very strong in a monetary union, such as the euro area, since there are no longer national monetary and exchange rate policies to respond to country-specific shocks.

## Lisbon Strategy for Growth and Jobs

### Launch in March 2000: economic, social and environmental reforms

The economic reform agenda for Europe has been laid down in the so-called Lisbon Strategy for Growth and Jobs. In this context, the EU Heads of State or Government (European Council) launched a wide-ranging and ambitious programme of economic, social and environmental reforms in March 2000 covering policies at both the national and the EU level to enhance the standard of living of European citizens. To achieve this goal, the Lisbon Strategy aimed to transform the European Union into a highly competitive and knowledge-based economy while maintaining a high degree of social cohesion and environmental sustainability.

### Relaunch in March 2005: refocused on four priorities

As the results obtained in the first five years of implementation were rather mixed, partly due to a lack of clear focus, the Lisbon Strategy was relaunched in March 2005. While acknowledging the continuing relevance of the social and environmental pillars, the European Council streamlined the governance framework (see below) and refocused the strategy on ‘growth and jobs’ by identifying four main priority areas:

* Promoting knowledge and innovation
* Making the EU an attractive area to invest and work in
* Fostering growth and employment based on social cohesion
* Promoting sustainable development.

### Institutional arrangements

### The institutional framework for implementing the Lisbon Strategy consists mainly of two processes spelled out in Articles 121 and 148 of the Treaty on the Functioning of the European Union (TFEU). These pertain to the EU Council of Ministers' adoption of [Broad Economic Policy Guidelines (BEPGs)](http://www.ecb.int/home/glossary/html/act4b.en.html?skey=Broad+&highlight) and [Employment Guidelines (EGs)](http://www.ecb.int/home/glossary/html/act4e.en.html?skey=employment&highlight), which are proposed by the European Commission and cover macroeconomic, microeconomic and employment policies.

### In order to improve the consistency of the BEPGs and EGs, and to focus on the implementation of structural reforms, the 2005 reform of the Lisbon Strategy brought the two sets of guidelines together under the single heading of the [Integrated Guidelines](http://www.ecb.int/home/glossary/html/act4i.en.html?skey=integrated&highlight). The guidelines are endorsed for a three-year period (see below for details). The first three-year period was 2005-07. The second three-year period is 2008-10.

On the basis of the Integrated Guidelines, each EU Member State draws up its [National Reform Programme](http://ec.europa.eu/growthandjobs/documentation/index_en.htm#national) describing key priorities for economic reforms, planned reforms and own targets in a single document. National parliaments, social partners and civil society are invited to participate in the formulation of the programme. This is intended to improve the national ownership of the structural reform agenda of each Member State.

As a complement to the National Reform Programmes, the Commission presents a [Community Lisbon Programme](http://europa.eu/legislation_summaries/employment_and_social_policy/growth_and_jobs/c10528_en.htm) covering all actions to be undertaken at the Community level. The implementation of the Community Lisbon Programme largely entails the adoption of Community legislation by the EU Council and European Parliament, on the basis of proposals by the Commission.

The Heads of State or Government hold a [Spring European Council](http://www.consilium.europa.eu/cms3_fo/showPage.asp?id=429&lang=EN&mode=g) every year in order to provide political impetus and direction to the strategy. [back to top](http://www.ecb.int/mopo/eaec/ecopolicy/html/index.en.html#skipnavigation)

## The three-year EU economic policy cycle

In March 2008, a new policy cycle started. The general set-up is always the same: each cycle begins with a strategic report by the Commission which puts forward the priorities of EU economic policy for the ensuing three years. The report is accompanied by a proposal for a set of Integrated Guidelines which is adopted by the Council.

On the basis of the [Integrated Guidelines](http://www.ecb.int/home/glossary/html/act4i.en.html?skey=integrated&highlight), each Member State puts forward a [National Reform Programme](http://ec.europa.eu/growthandjobs/documentation/index_en.htm#national) and gives account of its progress in autumn of each year in an [Implementation Report](http://ec.europa.eu/growthandjobs/documentation/index_en.htm#implementation). The Commission assesses the Implementation Reports in its [Annual Progress Report](http://ec.europa.eu/growthandjobs/documentation/index_en.htm#annual) in December. If deemed necessary, the country-specific recommendations (including euro area specific recommendations), which are an essential part of the Integrated Guidelines, may be adopted in the course of the annual review process.

At the end of the third year, the Integrated Guidelines, the National Reform Programmes and the Community Lisbon programme are renewed, on the basis of an overall assessment of progress during the cycle.

### The EU 2020 strategy

With the deadline of the current Lisbon Strategy approaching, the European Institutions are currently debating a successor strategy, called the [EU 2020 Strategy](http://www.ecb.int/mopo/eaec/ecopolicy/html/%20http:/ec.europa.eu/eu2020/). The new strategy will build on the achievements of the Lisbon Strategy and aim at, inter alia, raising potential growth and creating high levels of employment.

At the end of 2009, the Commission organised a [public consultation on the strategy](http://ec.europa.eu/dgs/secretariat_general/eu2020/consultation_en.htm), to which the ECB sent in its [own contribution](http://www.ecb.int/pub/pdf/other/eurosystemeu2020contributionen.pdf). The discussions on the EU 2020 Strategy are expected to be finalised by the June 2010 European Council."

* + 1. **Fiscal policies**

Fiscal policies have a significant impact on economic growth, macroeconomic stability and inflation. Key aspects in this respect are the level and composition of government expenditure and revenue, budget deficits and government debt. Fiscal discipline is a pivotal element of macroeconomic stability. The need for fiscal discipline is even stronger in a monetary union, such as the euro area, which is made of sovereign states that retain responsibility for their fiscal policies. There are no longer national monetary and exchange rate policies to respond to country-specific shocks, and fiscal policies can better cushion such shocks if they start from a sound position.

**Institutional arrangements**

A number of institutional arrangements for sound fiscal policies have been agreed at the EU level, also with a view to limiting risks to price stability.

These include:

* the prohibition of monetary financing (Article 123 of the Treaty on the Functioning of the European Union),
* the prohibition of privileged access to financial institutions (Article 124 of the Treaty on the Functioning of the European Union),
* the no-bail-out clause (Article 125 of the Treaty on the Functioning of the European Union),
* the fiscal provisions to avoid excessive government deficits (Article 126 of the Treaty on the Functioning of the European Union, including the excessive deficit procedure), and
* the Stability and Growth Pact (secondary legislation based on Articles 121 and 126 of the Treaty on the Functioning of the European Union). back to top

**Excessive deficit procedure**

The basic rule of budgetary policy enshrined in the Treaty is that Member States shall avoid excessive government deficits. Compliance with this rule is to be examined on the basis of reference values for the general government deficit (3%) and gross debt (60%) in relation to GDP, whereby a number of qualifications can be applied.

In particular, only an exceptional and temporary excess of the deficit over the reference value can be exempt from being considered excessive, and then only if it remains close to the reference value.

The decision as to whether a Member State is in a situation of excessive deficit lies with the ECOFIN Council, acting upon a recommendation from the European Commission.

If the Council decides that a Member State is in a situation of excessive deficit, the excessive deficit procedure provides for the necessary steps to be taken. These could ultimately lead to imposing sanctions on the country concerned. back to top

**Stability and Growth Pact**

The Stability and Growth Pact provides an operational clarification of the Treaty's budgetary rules. It defines the procedures for multilateral budgetary surveillance (preventive arm) as well as the conditions under which to apply the excessive deficit procedure (corrective arm). The Pact is an essential part of the macroeconomic framework of the Economic and Monetary Union. By requesting Member States to coordinate their budgetary policies and to avoid excessive deficits, it contributes to achieving macroeconomic stability in the EU and plays a key role in securing low inflation and low interest rates, which are essential contributions for delivering sustainable economic growth and job creation.

The main rationale of the Stability and Growth Pact is to ensure sound budgetary policies on a permanent basis. The Pact lays down the obligation for Member States to adhere to the medium term objectives for their budgetary positions of 'close to balance or in surplus', as defined under country-specific considerations. Adjusting to such positions will allow Member States to deal with normal cyclical fluctuations without breaching the 3% of GDP reference value for the government deficit.

* + 1. **External trade**

The euro area economy is relatively open, particularly when compared with the world’s two other leading economies, the United States and Japan. Moreover, the trade openness of the euro area has increased noticeably since 1998, particularly as a result of growing trade with new EU Member States and China. Yet, the euro area is far less open than the economies of the individual euro area countries.

Trade in goods accounts for about 80% of euro area imports and exports. Comparing the sectoral composition of extra-euro area exports and imports, imports tend to have a larger share of energy and raw materials, while exports tend to be more heavily focused on processed goods. This reflects the international division of labour and the scarcity of raw materials in the euro area.

**Geographical composition of euro area trade**

The top 20 trade partners of the euro area account for 80% of overall euro area trade. The United Kingdom and the United States are the two largest trade partners of the euro area, At the same time, trade with new EU Member States and emerging economies has increased noticeably over the past decade.

| **External trade in goods of the euro area in 2009  (share of total as a percentage)** | | |
| --- | --- | --- |
| Sources: Eurostat and ECB calculations. | | |
|  | **Exports** | **Imports** |
| Machinery and transport equipment | 41.0 | 31.4 |
| Chemicals | 17.5 | 10.8 |
| Raw materials | 2.3 | 4.0 |
| Energy | 4.2 | 20.1 |
| Food, drink and tobacco | 7.2 | 6.7 |
| Other manufactured articles | 24.8 | 24.5 |
| Other | 3.1 | 2.6 |
| **Total** | **100** | **100** |
| **Trade weights** [**1)**](http://www.ecb.int/mopo/eaec/trade/html/index.en.html#ftn1_2_4) **of the euro area's 20 main trading partners (percentage points)** | | | |
| Sources: ECB calculations based on Eurostat trade data.  1) Trade weights are the sum of exports and imports expressed as total of extra-euro  area exports and imports and are average figures for the period 1996 - 2009.  2) The other EU Member States comprise of Bulgaria, Czech Republic, Estonia,  Hungary, Latvia, Lithuania, Poland and Romania. 3) Special administrative region. Valorised | | | |
| 1 | United Kingdom | | 15.43 |
| 2 | United States | | 13.01 |
| 3 | Other EU Member States [2)](http://www.ecb.int/mopo/eaec/trade/html/index.en.html#ftn2_2_4) | | 10.58 |
| 4 | China | | 5.80 |
| 5 | Switzerland | | 5.53 |
| 7 | Russia | | 4.36 |
| 6 | Japan | | 3.93 |
| 8 | Sweden | | 3.67 |
| 9 | Denmark | | 2.30 |
| 10 | Turkey | | 2.22 |
| 11 | Norway | | 2.09 |
| 12 | Korea | | 1.58 |
| 13 | Brazil | | 1.48 |
| 14 | Taiwan | | 1.23 |
| 15 | India | | 1.16 |
| 16 | Canada | | 1.16 |
| 17 | Saudi Arabia | | 1.10 |
| 18 | Algeria | | 1.06 |
| 19 | Singapore | | 1.06 |
| 20 | Hong Kong [3)](http://www.ecb.int/mopo/eaec/trade/html/index.en.html#ftn3_2_4) | | 0.97 |

**Effective exchange rates**

**Nominal EER:** a geometric weighted average of the bilateral exchange rates of the euro against the currencies of a selection of trading partners.   
**Real EER:** takes into account developments in relative prices between the euro area and its trading partners. They are calculated on the basis of consumer price indices, producer price indices, GDP deflators and unit labour cost indices - the latter for the total economy as well as for the manufacturing sector. It provides a measure of international cost and price competitiveness of the euro area.

**Computation:** nominal and real EER indices are currently computed against:

* a narrow group of 12 partner countries (EER-12),
* a group of 21 partner countries (EER-21), comprising the EER-12 plus China and the eight non-euro area EU Member States not included in the EER-12,
* a broad group of 41 partner countries (EER-41), comprising the EER-21 plus 20 additional relevant trading partners (see table below for the complete list).

The EERs are constructed using moving weights, calculated on the basis of shares in euro area external trade in manufactured goods. The scheme combines information on exports and imports and accounts for so-called third-market effects, i.e. competition faced by euro area products in a partner country from products of a third country. The weighting schemes for the EERs are calculated on the basis of trade data referring to four periods: averages of 1995-97 are used in the construction of the series up to 1997; data from 1998-2000 and 2001-03 are used in the corresponding periods and weights based on data for 2004-06 are used in the calculation of the series from 2004 to the current period (see Box 5 in [January 2010 ECB Monthly Bulletin](http://www.ecb.int/pub/pdf/mobu/mb201001en.pdf)). Developments in the EER-21 set of indices are regularly commented in the ECB Monthly Bulletin.

| **Trade weights used in the calculation of the EERs of the euro (2004-2006)** | | | | |
| --- | --- | --- | --- | --- |
|  | **EER-12** | **EER-21** | **EER-41** |  |
| **EER-12** | **100.0** | **71.3** | **57.2** |  |
| Australia | 1.5 | 1.0 | 0.8 |  |
| Canada | 2.5 | 1.7 | 1.3 |  |
| Denmark | 3.7 | 2.7 | 2.2 |  |
| Hong Kong | 3.1 | 2.0 | 1.6 |  |
| Japan | 11.6 | 8.3 | 6.7 |  |
| Norway | 1.9 | 1.3 | 1.0 |  |
| Singapore | 2.5 | 1.8 | 1.4 |  |
| South Korea | 5.4 | 3.9 | 3.2 |  |
| Sweden | 6.5 | 4.8 | 3.9 |  |
| Switzerland | 8.7 | 6.4 | 5.3 |  |
| United Kingdom | 24.7 | 17.8 | 14.3 |  |
| United States | 27.9 | 19.6 | 15.6 |  |
| **EER-21** |  | **28.7** | **23.4** |  |
| Bulgaria |  | 0.6 | 0.4 |  |
| Czech Republic |  | 4.1 | 3.4 |  |
| Estonia |  | 0.3 | 0.2 |  |
| Hungary |  | 3.1 | 2.5 |  |
| Latvia |  | 0.2 | 0.1 |  |
| Lithuania |  | 0.3 | 0.3 |  |
| Poland |  | 4.9 | 3.9 |  |
| Romania |  | 1.7 | 1.4 |  |
| China |  | 13.6 | 11.1 |  |
| **EER-41** |  |  | **19.4** |  |
| Algeria |  |  | 0.4 |  |
| Argentina |  |  | 0.3 |  |
| Brazil |  |  | 1.2 |  |
| Chile |  |  | 0.4 |  |
| Croatia |  |  | 0.5 |  |
| Iceland |  |  | 0.1 |  |
| India |  |  | 1.8 |  |
| Indonesia |  |  | 0.6 |  |
| Israel |  |  | 0.7 |  |
| Malaysia |  |  | 1.1 |  |
| Mexico |  |  | 1.2 |  |
| Morocco |  |  | 0.6 |  |
| New Zealand |  |  | 0.1 |  |
| Philippines |  |  | 0.4 |  |
| Russia |  |  | 2.9 |  |
| South Africa |  |  | 1.0 |  |
| Taiwan |  |  | 1.8 |  |
| Thailand |  |  | 1.0 |  |
| Turkey |  |  | 3.0 |  |
| Venezuela |  |  | 0.2 |  |

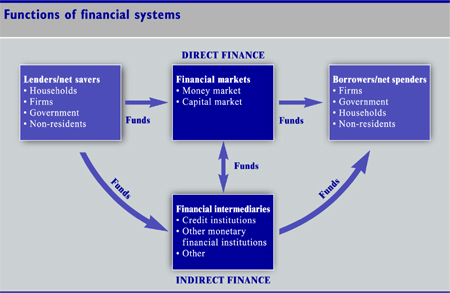
For details on the methodology underpinning the computation of the euro EER indices, see the Statistics section   
 [Background on the daily nominal effective exchange rate of the euro](http://www.ecb.int/stats/exchange/effective/html/index.en.html#info).

* + 1. **Financial structure**

The financial system channels funds from those who are net savers (i.e. who spend less than their income) to those who are net spenders (who spend more than their income).

The two main routes to channel funds from savers to borrowers are:

* direct or market-based finance via financial markets (see top route in the chart below), and
* indirect or bank-based finance via financial intermediaries (see the bottom of the chart below).

[back to top](http://www.ecb.int/mopo/eaec/structure/html/index.en.html#skipnavigation)

**Assets and liabilities in the euro area**

As regards financial assets of the non-financial sector in the euro area, currency and deposits accounted for around 42% of total assets at the end of 2009, while securities and shares accounted together for around 31%. Insurance technical reserves accounted for the remaining 27%.

Loans accounted for 59% of total liabilities, whereas securities, including quoted shares, comprised around 40% of the financing sources of the non-financial sector.

* + 1. **Financial markets**

Financial markets can be divided into

* money,
* debt, and
* equity markets.

**Money market**

The money market consists of the unsecured and secured ‘cash’ segments and derivatives segments. The money market in a broader sense also includes the market for short-term debt securities.

[back to top](http://www.ecb.int/mopo/eaec/markets/html/index.en.html#skipnavigation)**Debt market**

The amount outstanding of euro-denominated short-term debt securities issued by euro area residents totalled 16% of GDP at the end of 2009. For the first time since year 2000, all private sectors reduced their outstanding amount of short-term debt securities issued. By contrast, the outstanding amount of short-term debt issued by the public sector continued to increase.

back to topIn contrast, long-term debt securities accounted for more than 100% of GDP at the end of 2009. In this market, the public sector is the most important issuer, followed by the MFI sector and the other issuers of the private sector.

**Equity market**

Turning to the equity market, a commonly used indicator of its importance is the market capitalisation of stocks traded in terms of GDP. This indicator, albeit affected by movements in stock prices, shows that the equity market is less important than the debt securities market in the euro area. [back to top](http://www.ecb.int/mopo/eaec/markets/html/index.en.html#skipnavigation)

11.1.7. [http://www.ecb.int/shared/img/null.gif](http://www.ecb.int/home/html/qrcode.en.html)

# Financial intermediaries

There are two categories:

* monetary financial institutions (MFIs), and
* other financial intermediaries (OFIs).

## MFIs (Monetary financial institutions)

MFIs include the **Eurosystem** (ECB and the NCBs of those countries that have adopted the euro), credit institutions (the most important financial intermediaries in the euro area) and non-credit institutions (mainly money market funds) whose business is to receive deposits from entities other than MFIs and to grant credit and/or invest in securities. [back to top](http://www.ecb.int/mopo/eaec/intermediaries/html/index.en.html#skipnavigation)

### Consolidated balance sheet of MFI sector

MFIs regularly report data on their assets and liabilities to the ECB and the NCBs. These data are used to compute the consolidated balance sheet of the MFI sector.

The chart below shows the composition of the consolidated balance sheet of the euro area MFI sector at the end of 2009. Deposits are the most important liability item, while loans represent the largest share of total MFI assets.

The consolidated MFI balance sheet is very useful. It represents the basis for the computation of some of the key monetary and credit variables regularly monitored at the ECB. In particular, this balance sheet is used to calculate the euro area monetary aggregates.

| **Schematic consolidated balance sheet of the MFI sector for the euro area(** [**1**](http://www.ecb.int/mopo/eaec/intermediaries/html/index.en.html#ftn1_1) **)** | |
| --- | --- |
| ( 1 ) A detailed description of the instrument categories is provided in Annex 4 of the ECB publication: "The single monetary policy in Stage Three: General documentation on ESCB monetary policy instruments and procedures". | |
| **Assets** | **Liabilities** |
| 1. Loans | 1. Currency in circulation |
| 2. Securities other than shares | 2. Deposits of central government |
| 3. Shares and other equities | 3. Deposits of other general government and other euro area residents |
| 4. External assets | 4. Money market fund shares/units |
| 5. Fixed assets | 5. Debt securities issued |
| 6. Remaining assets | 6. Capital and reserves |
|  | 7. External liabilities |
|  | 8. Remaining liabilities |

Trends in monetary aggregates are important sources of information about future inflation and economic activity.  
The chart below shows the composition of the monetary aggregate M3 at the end of 2009.

As the definition of monetary aggregates adopted by the ECB only includes liabilities of MFIs located in the euro area vis-à-vis euro area residents, the monetary aggregate M3 comprises:

1. short-term deposits with euro area MFIs,
2. shares/units issued by money market funds located in the euro area, and
3. debt securities issued with a maturity of up to and including two years by MFIs located in the euro area.

Holdings of these instruments by non-residents are not included in M3. Currency in circulation is entirely included in the monetary aggregates, irrespective of whether it is held by euro area residents or non-residents, given the difficulty of deriving accurate and timely measures of the amounts of banknotes and coins held by non-residents. back to top

## OFIs (Other financial intermediaries)

OFIs form a broad category comprising insurance corporations, pension funds, financial auxiliaries, mutual funds, securities and derivatives dealers and financial corporations engaged in lending (see definition and sub-categories of [OFIs](http://www.ecb.int/home/glossary/html/glosso.en.html#94)).

**2. MONETARY POLICY IN THE EUROPEAN AREA**

# 2. 1. Monetary policy

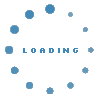
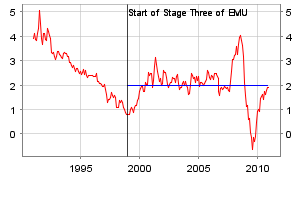
**Inflation**

Inflation refers to a general increase in consumer prices and is measured by an index which has been harmonised across all EU Member States: Harmonised Index of Consumer Prices (HICP). The HICP is the measure of inflation which the [Governing Council](http://www.ecb.int/ecb/orga/decisions/govc/html/index.en.html) uses to define and assess price stability in the euro area as a whole in quantitative terms.

**Inflation in the euro area** (annual percentage changes, non-seasonally adjusted)

HICP

Average inflation since 1999



Source: Eurostat. Data prior to 1996 are estimated on the basis of non-harmonised national Consumer Price Indices (CPIs).

**2.1. 1. Objective of monetary policy**

The primary objective of the ECB’s monetary policy is to maintain price stability. The ECB aims at inflation rates of below, but close to, 2% over the medium term.

To maintain price stability is the primary objective of the Eurosystem and of the single monetary policy for which it is responsible. This is laid down in the Treaty on the Functioning of the European Union, Article 127 (1).

"Without prejudice to the objective of price stability", the Eurosystem will also "support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community". These include a "high level of employment" and "sustainable and non-inflationary growth".

The Treaty establishes a clear hierarchy of objectives for the Eurosystem. It assigns overriding importance to price stability. The Treaty makes clear that ensuring price stability is the most important contribution that monetary policy can make to achieve a favourable economic environment and a high level of employment.

These Treaty provisions reflect the broad consensus that

* **the benefits of price stability** are substantial (see [benefits of price stability](http://www.ecb.europa.eu/mopo/intro/benefits/html/index.en.html)). Maintaining stable prices on a sustained basis is a crucial pre-condition for increasing economic welfare and the growth potential of an economy .
* the **natural role of monetary policy** in the economy is to maintain price stability (see [scope of monetary policy](http://www.ecb.europa.eu/mopo/intro/role/html/index.en.html)). Monetary policy can affect real activity only in the shorter term (see the [transmission mechanism](http://www.ecb.europa.eu/mopo/intro/transmission/html/index.en.html)). But ultimately it can only influence the price level in the economy.

The Treaty provisions also imply that, in the actual implementation of monetary policy decisions aimed at maintaining price stability, the Eurosystem should also take into account the broader economic goals of the Community. In particular, given that monetary policy can affect real activity in the shorter term, the ECB typically should avoid generating excessive fluctuations in output and employment if this is in line with the pursuit of its primary objective.

**2.1.2. Benefits of price stability**

The objective of price stability refers to the general level of prices in the economy. It implies avoiding both prolonged inflation and deflation. Price stability contributes to achieving high levels of economic activity and employment by

* improving the transparency of the price mechanism. Under price stability people can recognise changes in relative prices (i.e. prices between different goods), without being confused by changes in the overall price level. This allows them to make well-informed consumption and investment decisions and to allocate resources more efficiently;
* reducing inflation risk premia in interest rates (i.e. compensation creditors ask for the risks associated with holding nominal assets). This reduces real interest rates and increases incentives to invest;
* avoiding unproductive activities to hedge against the negative impact of inflation or deflation;
* reducing distortions of inflation or deflation, which can exacerbate the distortionary impact on economic behaviour of tax and social security systems;
* preventing an arbitrary redistribution of wealth and income as a result of unexpected inflation or deflation.

While the Treaty clearly establishes the maintenance of price stability as the primary objective of the ECB, it does not give a precise definition of what is meant by price stability.

**Quantitative definition of price stability**

The ECB’s Governing Council has defined price stability as "a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. Price stability is to be maintained over the medium term".

The Governing Council has also clarified that, in the pursuit of price stability, it aims to maintain inflation rates below, but close to, 2% over the medium term.

# 2.1.3. Scope of monetary policy

The central bank is the sole issuer of banknotes and bank reserves. That means it is the monopoly supplier of the monetary base. By virtue of this monopoly, it can set the conditions at which banks borrow from the central bank. Therefore it can also influence the conditions at which banks trade with each other in the money market.

In the short run, a change in money market interest rates induced by the central bank sets in motion a number of mechanisms and actions by economic agents. Ultimately the change will influence developments in economic variables such as output or prices. This process – also known as the monetary policy [transmission mechanism](http://www.ecb.europa.eu/mopo/intro/transmission/html/index.en.html) – is highly complex. While its broad features are understood, there is no consensus on its detailed functioning.

## Long-run neutrality of money

It is widely agreed that in the long run – after all adjustments in the economy have worked through – a change in the quantity of money in the economy will be reflected in a change in the general level of prices. But it will not induce permanent changes in real variables such as real output or unemployment.

This general principle, referred to as "the long-run neutrality of money", underlies all standard macroeconomic thinking. Real income or the level of employment are, in the long term, essentially determined by real factors, such as technology, population growth or the preferences of economic agents.

## Inflation – a monetary phenomenon

In the long run a central bank can only contribute to raising the growth potential of the economy by maintaining an environment of stable prices. It cannot enhance economic growth by expanding the money supply or keeping short-term interest rates at a level inconsistent with price stability. It can only influence the general level of prices.

Ultimately, inflation is a monetary phenomenon. Prolonged periods of high inflation are typically associated with high monetary growth. While other factors (such as variations in aggregate demand, technological changes or commodity price shocks) can influence price developments over shorter horizons, over time their effects can be offset by a change in monetary policy.

# 2.1.4. Monetary policy instruments

## Operational Framework

In order to achieve its primary objective, the Eurosystem uses a set of monetary policy instruments and procedures. This set forms the operational framework to implement the single monetary policy (see [instruments](http://www.ecb.europa.eu/mopo/implement/intro/html/index.en.html)).

## Monopoly supplier of monetary base

The Eurosystem is the sole issuer of banknotes and bank reserves in the euro area. This makes it the monopoly supplier of the monetary base, which consists of

* currency (banknotes and coins) in circulation,
* the reserves held by counterparties with the Eurosystem, and
* recourse by credit institutions to the Eurosystem’s deposit facility.

These items are liabilities in the Eurosystem’s balance sheet. Reserves can be broken down further into required and excess reserves.

In the Eurosystem’s minimum reserve system, counterparties are obliged to hold reserves with the national central banks (NCBs). Beyond that, credit institutions usually hold only a small amount of voluntary excess reserves with the Eurosystem.

By virtue of its monopoly, a central bank is able to manage the liquidity situation in the money market and influence money market interest rates.

## Signalling the monetary policy stance

In addition to steering interest rates by managing liquidity, the central bank can also signal its monetary policy stance to the money market. This is usually done by changing the conditions under which the central bank is willing to enter into transactions with credit institutions.

## Ensuring proper functioning of the money market

In its operations, the central bank also aims to ensure a proper functioning of the money market and to help credit institutions meet their liquidity needs in a smooth manner. This is achieved by providing both regular refinancing to credit institutions and facilities that allow them to deal with end-of-day balances and to cushion transitory liquidity fluctuations.

## Guiding principles

The operational framework of the Eurosystem is based on the principles laid down in the Treaty on European Union. Article 127 of the Treaty on the Functioning of the European Union states that in pursuing its objectives, the Eurosystem "(…) shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources (…)".

In addition to the principles set out in the Treaty on European Union, the operational framework follows several guiding principles.

### Operational efficiency

The most important principle is operational efficiency. It can be defined as the capacity of the operational framework to enable monetary policy decisions to feed through as precisely and as fast as possible to short-term money market rates. These in turn, through the monetary policy transmission mechanism, affect the price level.

### Equal treatment and harmonisation

Another principle is that credit institutions must be treated equally irrespective of their size and location in the euro area. The harmonisation of rules and procedures helps to ensure equal treatment by trying to provide identical conditions to all credit institutions in the euro area in transactions with the Eurosystem.

### Decentralised implementation

One principle specific to the Eurosystem is the decentralised implementation of monetary policy. The ECB coordinates the operations and the national central banks (NCBs) carry out the transactions.

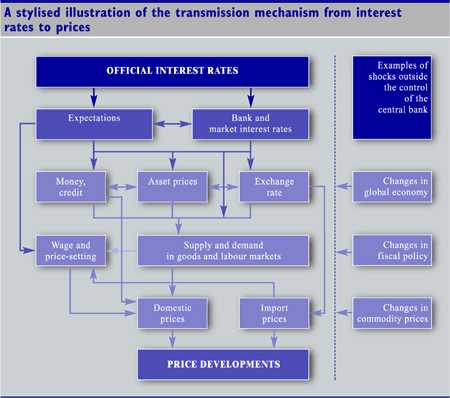
### Simplicity, transparency, continuity, safety and cost efficiency

Simplicity and transparency ensure that the intentions behind monetary policy operations are correctly understood. The principle of continuity aims at avoiding major changes in instruments and procedures, so that central banks and their counterparties can draw on experience when participating in monetary policy operations. The principle of safety requires that the Eurosystem’s financial and operational risks are kept to a minimum. Cost efficiency means keeping low the operational costs to both the Eurosystem and its counterparties arising from the operational framework.

# 2.1.5. Transmission mechanism of monetary policy

This is the process through which monetary policy decisions affect the economy in general and the price level in particular. The transmission mechanism is characterised by long, variable and uncertain time lags. Thus it is difficult to predict the precise effect of monetary policy actions on the economy and price level.

The chart below provides a schematic illustration of the main transmission channels of monetary policy decisions.



## Change in official interest rates

The central bank provides funds to the banking system and charges interest. Given its monopoly power over the issuing of money, the central bank can fully determine this interest rate.

### Affects banks and money-market interest rates

The change in the official interest rates affects directly money-market interest rates and, indirectly, lending and deposit rates, which are set by banks to their customers.

### Affects expectations

Expectations of future official interest-rate changes affect medium and long-term interest rates. In particular, longer-term interest rates depend in part on market expectations about the future course of short-term rates.

Monetary policy can also guide economic agents’ expectations of future inflation and thus influence price developments. A central bank with a high degree of credibility firmly anchors expectations of price stability. In this case, economic agents do not have to increase their prices for fear of higher inflation or reduce them for fear of deflation.

### Affects asset prices

The impact on financing conditions in the economy and on market expectations triggered by monetary policy actions may lead to adjustments in asset prices (e.g. stock market prices) and the exchange rate. Changes in the exchange rate can affect inflation directly, insofar as imported goods are directly used in consumption, but they may also work through other channels.

### Affects saving and investment decisions

Changes in interest rates affect saving and investment decisions of households and firms. For example, everything else being equal, higher interest rates make it less attractive to take out loans for financing consumption or investment.

In addition, consumption and investment are also affected by movements in asset prices via wealth effects and effects on the value of collateral. For example, as equity prices rise, share-owning households become wealthier and may choose to increase their consumption. Conversely, when equity prices fall, households may reduce consumption.

Asset prices can also have impact on aggregate demand via the value of collateral that allows borrowers to get more loans and/or to reduce the risk premia demanded by lenders/banks.

### Affects the supply of credit

For example, higher interest rates increase the risk of borrowers being unable to pay back their loans. Banks may cut back on the amount of funds they lend to households and firms. This may also reduce the consumption and investment by households and firms respectively.

### Leads to changes in aggregate demand and prices

Changes in consumption and investment will change the level of domestic demand for goods and services relative to domestic supply. When demand exceeds supply, upward price pressure is likely to occur. In addition, changes in aggregate demand may translate into tighter or looser conditions in labour and intermediate product markets. This in turn can affect price and wage-setting in the respective market.

### Affects the supply of bank loans

Changes in policy rates can affect banks’ marginal cost for obtaining external finance banks differently, depending on the level of a bank’s own resources, or bank capital. This channel is particularly relevant in bad times such as a financial crisis, when capital is scarcer and banks find it more difficult to raise capital.

In addition to the traditional bank lending channel, which focuses on the quantity of loans supplied, a risk-taking channel may exist when banks’ incentive to bear risk related to the provision of loans is affected. The risk-taking channel is thought to operate mainly via two mechanisms. First, low interest rates boost asset and collateral values. This, in conjunction with the belief that the increase in asset values is sustainable, leads both borrowers and banks to accept higher risks. Second, low interest rates make riskier assets more attractive, as agents search for higher yields. In the case of banks, these two effects usually translate into a softening of credit standards, which can lead to an excessive increase in loan supply.

**2. 2. Ambienti Ekonomik dhe Monetar në Eurozonë - ECB, ESCB dhe Eurosistemi**

[](http://www.ecb.int/ecb/orga/escb/html/image12.en.html) [](http://www.ecb.int/ecb/orga/escb/html/image7.en.html)

The ECB's Eurotower in Frankfurt, Germany [The Eurotower at night](http://www.ecb.int/ecb/orga/escb/html/image7.en.html)

Since 1 January 1999 the European Central Bank (ECB) has been responsible for conducting monetary policy for the euro area - the world’s largest economy after the United States.

The euro area came into being when responsibility for monetary policy was transferred from the national central banks of 11 EU Member States to the ECB in January 1999. Greece joined in 2001, Slovenia in 2007, Cyprus and Malta in 2008, Slovakia in 2009. The creation of the euro area and of a new supranational institution, the ECB, was a milestone in the long and complex process of European integration.

To join the euro area, the 16 countries had to fulfil the [convergence criteria](http://www.ecb.int/ecb/orga/escb/html/convergence-criteria.en.html), as will other EU Member States prior to adopting the euro. The criteria set out the economic and legal preconditions for countries to participate successfully in Economic and Monetary Union.

Që nga 1 Janari 1999, Banka Qendrore Europiane (BQE) ka qenë përgjegjëse për zhvillimin e politikës monetare për eurozonë - ekonomia më e madhe në botë, pas Shteteve të Bashkuara.

Eurozona është krijuar kur përgjegjësitë për politikën monetare ishin transferuar nga bankat qendrore të 11 vendeve anëtare të BE në Bankën Qendrore Europiane, në Janar 1999. Greqia u bashkua në vitin 2001, Sllovenia në vitin 2007, Qipro dhe Malta në 2008, ndërsa Sllovakia në 2009. Krijimi i eurozonës dhe i një institucioni të ri mbinacional, të Bankës Qendrore Europiane, ishte një moment historik në procesin e gjatë dhe kompleks të integrimeve evropiane.

Për t'u bashkuar me Eurozonë, 16 shtetet kishin për të përmbushur kriteret konvergjente, siç do bënin shtetet tjera anëtare të BE përpara se ta miratojnë euron. Kriteret përcaktojnë parakushtet ekonomike dhe ligjore për vendet për të marrë pjesë me sukses në Unionin Ekonomik dhe Monetar.

**European Central Bank**

**Banka Qendrore Europiane**

The legal basis for the single monetary policy is the **Treaty establishing the European Community** and the **Statute of the European System of Central Banks and of the European Central Bank**. The Statute established both the ECB and the European System of Central Banks (ESCB) as from 1 June 1998. The ECB was established as the core of the Eurosystem and the ESCB. The ECB and the national central banks together perform the tasks they have been entrusted with. The ECB has legal personality under public international law.

[back to top](http://www.ecb.int/ecb/orga/escb/html/index.en.html#skipnavigation)Baza ligjore për politikë monetare të vetme është Traktati themelues i Komunitetit Europian dhe Statuti i Sistemit Europian të Bankave Qendrore dhe të Bankës Qendrore Evropiane. Statuti ka themeluar si Bankën Qendrore Europiane ashtu edhe Sistemin Europian të Bankave Qendrore (SEBQ), nga 1 Qershori 1998. BQE u krijua si gurthemel i Eurosistemit dhe i SEBQ. BQE dhe bankat qendrore kombëtare, së bashku, kryejnë detyrat që atyre u janë besuar. BQE ka personalitet juridik, sipas të drejtës publike ndërkombëtare.

**European System of Central Banks**

Sistemi Evropian i Bankave Qendrore

The ESCB comprises the ECB and the national central banks (NCBs) of all EU Member States (Article 107.1 of the Treaty) whether they have adopted the euro or not.

SEBQ përbëhet nga BQE dhe bankat qendrore kombëtare (BQK) të të gjitha shteteve anëtare të BE-së (neni 107.1 i Traktatit), pavarësisht nëse ato kanë adoptuar euron, apo jo.

**2.2.1. Eurosystem (**Eurosistemi)

The Eurosystem comprises the ECB and the NCBs of those countries that have adopted the euro. The Eurosystem and the ESCB will co-exist as long as there are EU Member States outside the euro area.

Eurosistemi përbëhet nga BQE dhe BQK të atyre vendeve që e kanë adoptuar euron. Eurosistemi dhe SEBQ do të bashkë-ekzistojnë për aq kohë sa ka shtete anëtare të BE jashtë eurozonës.back to top

**Basic tasks of the Eurosystem**

The Treaty on the Functioning of the European Union entrusts the European System of Central Banks (ESCB) with the task of performing the central bank function for the Union. Since some EU Member States do not participate in Economic and Monetary Union, the terms "ESCB" and "Union" are to be read as "Eurosystem" and "euro area", respectively.

### Monetary policy

The Eurosystem is responsible for defining and implementing the monetary policy of the euro area. This is a public policy function that is implemented mainly by financial market operations. Important for this task is the full control of the Eurosystem over the monetary base. As part of that, the ECB and the national central banks (NCBs) are the only institutions that are entitled to actually issue legal tender banknotes in the euro area. Given the dependence of the banking system on base money, the Eurosystem is thus in a position to exert a dominant influence on money market conditions and money market interest rates.

### Foreign exchange operations

Foreign exchange operations influence exchange rates and domestic liquidity conditions; both are important variables for monetary policy. Assigning this task to the Eurosystem is therefore logical, also because central banks have the necessary operational facilities. Secondly, if the central bank carries out this task, it ensures that the foreign exchange operations remain consistent with the aims of the central bank's monetary policy.

### Promote smooth operation of payment systems

Payment systems are a means to transfer money between credit and other monetary institutions. This function places them at the heart of an economy's financial infrastructure. Assigning the task of promoting their smooth operation to the Eurosystem acknowledges the importance of having sound and efficient payment systems - not only for the conduct of monetary policy but also for the stability of the financial system and as such for the economy as a whole.

### Hold and manage foreign reserves

One of the most important reasons for managing the foreign reserves portfolio is to ensure that the ECB has sufficient liquidity to conduct its foreign exchange operations. The ECB's foreign reserves are currently managed in a decentralised manner by the NCBs that opt to take part in operational ECB foreign reserve management activities. These NCBs act on behalf of the ECB in accordance with instructions received from the ECB. Although the NCBs manage their own foreign reserves independently, their operations on the foreign exchange market are, above a certain limit, subject to the approval of the ECB, in order to ensure consistency with the exchange rate and monetary policy of the Eurosystem.

[back to top](http://www.ecb.int/ecb/orga/escb/html/index.en.html#skipnavigation)**Euro area**

The euro area consists of the EU countries that have adopted the euro.

# The mission of the European Central Bank

The European Central Bank and the national central banks together constitute the Eurosystem, the central banking system of the euro area. The main objective of the Eurosystem is to maintain price stability: safeguarding the value of the euro.

We at the European Central Bank are committed to performing all central bank tasks entrusted to us effectively. In so doing, we strive for the highest level of integrity, competence, efficiency and transparency.

Misioni i Bankës Qendrore Evropiane

Banka Qendrore Europiane dhe bankat qendrore kombëtare, së bashku, përbëjnë Eurosistemin, sistemin qendror bankar të Eurozonës. Objektivi kryesor i Eurosistemit është ruajtja e stabilitetit të çmimeve: ruajtja e vlerës së euros.

Ne në Bankën Qendrore Europiane jemi të angazhuar për të kryer të gjitha detyrat e bankës qendrore, që i janë besuar në mënyrë efektive. Duke bërë këtë, ne përpiqemi për të mbajtur nivelin më të lartë të kompetencës, integritetit, efikasitetit dhe transparencës.

# The mission of the Eurosystem

The Eurosystem, which comprises the European Central Bank and the national central banks of the Member States whose currency is the euro, is the monetary authority of the euro area. We in the Eurosystem have as our primary objective the maintenance of price stability for the common good. Acting also as a leading financial authority, we aim to safeguard financial stability and promote European financial integration.

In pursuing our objectives, we attach utmost importance to credibility, trust, transparency and accountability. We aim for effective communication with the citizens of Europe and the media. We are committed to conducting our relations with European and national authorities in full accordance with the Treaty provisions and with due regard to the principle of independence.

We jointly contribute, strategically and operationally, to attaining our common goals, with due respect to the principle of decentralisation. We are committed to good governance and to performing our tasks effectively and efficiently, in a spirit of cooperation and teamwork. Drawing on the breadth and depth of our experiences as well as on the exchange of know-how, we aim to strengthen our shared identity, speak with a single voice and exploit synergies, within a framework of clearly defined roles and responsibilities for all members of the Eurosystem.

Misioni i Eurosistemit

Eurosistemi, i cili përbëhet nga Banka Qendrore Europiane dhe bankat qendrore kombëtare të shteteve anëtare, monedha e të cilave është euro, është autoriteti monetar i zonës së euros. Ne në Eurosistemi, si objektiv kryesor, kemi ruajtjen e stabilitetit të çmimeve për të mirën e përbashkët. Duke vepruar, gjithashtu, si një autoritet kryesor financiar, e kemi për qëllim ruajtjen e stabilitetit financiar dhe promovimin e integrim financiar Europian.

Në ndjekjen e objektivave tona, ne i japim rëndësi të madhe kredibilitetit, besueshmërisë, transparencës dhe llogaridhënies. Ne synojmë për një komunikim efektiv me qytetarët e Europës dhe mediat. Ne jemi të angazhuar për kryerjen e marrëdhënieve tona me autoritetet Europiane dhe kombëtare, në përputhje të plotë me dispozitat e Traktatit dhe me kujdesin e duhur për parimin e pavarësisë.

Ne së bashku kontribuojnë, nga aspekti strategjik dhe operativ, në realizimin e qëllimeve tona të përbashkëta, me respektin për parimin e decentralizimit. Ne jemi të përkushtuar për qeverisjen e mirë dhe për kryerjen e detyrave tona në mënyrë efektive dhe efikase, në një frymë të bashkëpunimit dhe punës ekipore. Duke u mbështetur në gjerësinë dhe thellësinë e përvojave tona si dhe në shkëmbimin e ‘know-how’, ne kemi për qëllim për të forcuar identitetin tonë të përbashkët, të flasin me një zë të vetëm dhe të shfrytëzojmë sinergjitë, brenda një kornize që përcakton qartë rolet dhe përgjegjësitë për të gjithë anëtarët e Eurosistemit.

# The strategic intents of the Eurosystem

## First strategic intent

### Acknowledged authority in monetary and financial matters

Building on its solid constitutional basis, its independence and its internal cohesion, the Eurosystem, the central banking system of the euro area, shall act as the monetary authority of the euro area and as a leading financial authority, fully recognised inside and outside Europe. In pursuing its primary objective, the maintenance of price stability, the Eurosystem shall undertake the necessary economic and monetary analyses and adopt and implement appropriate policies. It shall also properly and effectively respond to monetary and financial developments. back to top

## Second strategic intent

### Financial stability and European financial integration

The Eurosystem shall aim to safeguard financial stability and promote European financial integration in cooperation with the established institutional structures. To this end, it shall contribute to policies providing for a sound European and global architecture for financial stability.back to top

## Third strategic intent

### Accountability, credibility and trust. Closeness to the citizens of Europe

The Eurosystem attaches utmost importance to credibility, trust, transparency and accountability. It aims for effective communication with the citizens of Europe and the media. It is committed to conducting its relations with European and national authorities in full accordance with the Treaty provisions and with due regard to the principle of independence. To this end, the Eurosystem will keep abreast of the transformations affecting money and financial markets and will be sensitive to the public interest and market needs. back to top

## Fourth strategic intent

### Shared identity, clarity of roles and responsibilities and good governance

The Eurosystem shall aim to strengthen its shared identity within a framework of clearly defined roles and responsibilities for all its participants. To this end, the Eurosystem will build on the potential and deep involvement of all its members, as well as on their commitment and willingness to work towards agreement. Furthermore, the Eurosystem is committed to good governance and to applying effective and efficient organisational structures and working methods.

In performing its activities, the Eurosystem shall be guided by a number of  [organisational principles](http://www.ecb.int/ecb/orga/escb/html/principles.en.html).

# Organisational principles for the fulfilment of Eurosystem functions by all members of the Eurosystem

With due respect to the principle of decentralisation which is at the root of the System:

### 1. Participation

All members of the Eurosystem shall contribute strategically and operationally to the goals of the Eurosystem.

### 2. Cooperation

All Eurosystem functions shall be performed in a spirit of cooperation and teamwork by the members of the Eurosystem.

### 3. Transparency and accountability

All members of the Eurosystem shall act transparently and be fully responsible and accountable for the effectiveness of all Eurosystem functions.

### 4. Distinguishing Eurosystem activities

Eurosystem activities performed by national central banks shall be clearly identified and distinguished – to the extent possible – from those pertaining to national responsibilities.

### 5. Cohesion and unity

While respecting the legal status of its members, the Eurosystem and its staff shall act and appear as a cohesive and unified entity. In that spirit and working as a team, the Eurosystem shall speak with a single voice and be close to the citizens of Europe.

### 6. Exchange of resources

The exchange of personnel, know-how and experience shall be promoted by and among all members of the Eurosystem.

### 7. Effectiveness and efficiency in decision-making

All Eurosystem decision-making and deliberative processes need to pursue effectiveness and efficiency. Decision-making shall focus on analysis and arguments as well as on expressing views in their variety.

### 8. Cost efficiency, measurement and methodology

The Executive Board of the ECB and the Governors of the national central banks shall manage all resources prudently and shall promote effective and cost-efficient solutions in all parts of the Eurosystem.

The ECB and the NCBs shall develop control systems and performance indicators to measure the fulfilment of Eurosystem functions and their alignment with the objectives of the Eurosystem.

Comparable cost evaluation and cost-reporting methods should be elaborated.

### 9. Exploit synergies and avoid duplications

Potential synergies and economies of scale shall be identified and exploited to the extent feasible.

Unnecessary duplication of work and resources at functional levels and over-extensive and inefficient coordination shall be avoided. To this end, the Eurosystem shall energetically pursue organisational options that ensure effectiveness, efficiency and prompt action, taking advantage of the experience available both at the ECB and at the NCBs through intensified use of existing resources.

The outsourcing of Eurosystem support functions and activities shall be considered against the same criteria and shall take security aspects into account.

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