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**Paul De Grauwe explains the Eurozone crisis**

# EUROPE NEEDS POLITICAL INTEGRATION NOT BUREAUCRACY

## At Palazzo Geremia the Belgian economist from the London School of Economics, Paul De Grauwe illustrated the real causes of the financial crisis that hit the Eurozone. "It is necessary to change the role of the ECB: without a lender of last resort European countries are at the mercy of the financial markets". In De Grauwe's opinion , "with the OMT programme launched by Draghi the ECB saved the Eurozone", however, in order to avoid new crises "a Eurozone government to which the ECB is subordinated" is necessary; only by breaching the gap in the democratic legitimacy of the Eurozone will it be possible to ensure that it can resist the pressure of the financial markets: "the bureaucratic integration of Europe has failed".-

It is necessary to redraw Europe, rethink the role of the European Central Bank (ECB) and achieve real macro-economic coordination within the Eurozone (the group of countries using the Euro, including Italy). These are the priorities for Europe according to Paul De Grauwe, Lecturer in Political Economy at the prestigious London School of Economics."It is necessary to move from bureaucratic integration to political integration", explained the economist to a packed room at Palazzo Geremia, on the second day of Trento Festival of Economics. De Grauwe recalled the genesis of the European financial crisis. In his opinion, the original sin of the Eurozone was the absence of the so-called "lender of last resort". "In European countries that do not belong to the Eurozone, like the United Kingdom and Sweden, or in the USA, there is a lender of last resort who provides liquidity to banks whenever necessary. This role is played by the central bank, the Federal Reserve in the USA and the Bank of England (BoE) in the United Kingdom. With the birth of the Eurozone the role of the lender of last resort was eliminated. The various national governments, for example the Italian government, can thus no longer guarantee to those who hold their debts that they will have the money necessary to pay them".Thus the difference between Italy and the United Kingdom is that as Italy belongs to the Eurozone, it cannot count on a lender of last resort (the ECB was not designed to play this role), whereas the United Kingdom can, thanks to the BoE. In the absence of this guarantee it is possible that there may be crises of liquidity that are self-fulfilling: the financial markets get scared, this leads to increases in the spread, so governments pass austerity measures and this generates a negative spiral. "The nations in the Eurozone are weakened by the fact that there is no central bank ready to provide them with unlimited support. The financial markets rule. This does not happen to countries that have their own central banks, acting as lenders of last resort; they cannot be thrown into a liquidity crisis by the financial markets". Thus the ECB must become a lender of last resort. In effect, in 2012 with the Outright Monetary Transaction (OMT) programme, illustrated on 6 September by the President of the ECB, Mario Draghi, it effectively acted as such. "The effects of OMT were spectacular", underlined De Grauwe, who did not hesitate to describe the ECB as the true saviour of the Eurozone. "Unfortunately the role of the ECB was placed in discussion by the German constitutional court, which declared OMT to be illegitimate. The court requested restrictions to OMT, restrictions that would make it entirely ineffective".Today the ECB "has a great deal of power, it is the last guarantor of European sovereign debt, in the same way as the FED or the BoE. However, in the United Kingdom or the USA there is leadership from the government, whereas in the Eurozone governments depend on the good will of the ECB: they cannot oblige it, even in times of crisis, to provide liquidity."The ECB is indeed made up of non elected officials, in contrast with governments. "To date there has been an increase in the power of the ECB and the European Commission, but there has not

been an increase in their accountability", underlined De Grauw – "Until things change, the Eurozone will remain fragile and the government securities market will remain volatile." -

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