

ROUND TABLE ON “DEBT AND FISCAL PROBLEMS IN THE NORTH”¹

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The World at a Crossroad

The world is revealing itself as an extraordinary unstable place. Economic imbalances, wealth disparities and unwieldy finance, all contribute to the current situation bugging global financial markets. Of historical and unprecedented nature are the global expansion of debt and the central bank monetization trend of recent decades. Undoubtedly, the massive growth of debt and ballooning central bank balance sheets nurture a myriad of vulnerabilities, resulting from speculative finance and leading to boom and bust dynamics.

Nowadays, the global sentiment is shifting. Optimism on the sustainability of global recovery is dimming. And the general economic “soft-patch” talk is turning into possible “double-dip” scenario in the largest economies, while some red-hot emerging economies are sliding into “soft-patch” growth territory.

1. Major Power Shifts

I shall begin with my area of experience and tell you what I have observed from the particular angle of Wall Street and global financial markets during the last decades.

A main event, that I would like to mention here is when, on August 15, 1971, the U.S. President Richard Nixon decided to shut down the “Gold Window” and severed the Bretton Woods Agreement. As a result, “paper

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money” became the common medium of exchange to measure “equality” and “consequences” of economic development. Paper money, not to be confused with wealth, has value on two predominant accounts: **1)** because the government in power says so, **and 2)** because people are willing to accept it as payment. However, governments and central banks retain little control over the actions and reactions of paper money holders throughout the globe.

Fast-forward to 1975, when the global financial world was hit by a major event that no one seems to remember any more. It had the effect of a “tsunami”, which marked the beginning of a multi-decade period when global finance interests were, more and more each day, distancing themselves from the “real” economy. On May 1st of 1975, modern finance was energized when NYSE “fixed commissions” charged on financial transactions were abandoned at the altar of “negotiated commissions”. The aim was to encourage a larger public participation in Wall Street, so that liquidity would be enhanced and risk be spread throughout all investors, institutions and individuals.

As a result, financial engineers multiplied their efforts, with intelligence and innovation, to create sophisticated financial instruments for investors. The financial industry made larger use of debt, securitization and proprietary trading. Incidentally, “High Frequency Trading” has already claimed the “flash crash” of May 6, 2010! In plain English, the message given out to the world by the 1975 shift in the NYSE commission system was that **...every American and world’s citizen had the right to own a piece of the national and global economy.** The untold message, however, truly was that **...upstairs trading needed a larger trading base on which to build successfully its creative investment strategies!**

Financial sophistication is not privy of major consequences. The individual investor is not in a position to effectively compete with algorithm-based financial trading systems, which remain only available to the happy few, who command a large and growing share of the overall trading volume. As a consequence, “human” traders are becoming a rarity while “supercomputers” continue to trade with each other! But, for how long? And, how big is the resulting systemic risk of modern day finance? In a nutshell, since the 1970s and under the complacent eyes of governing authorities (government, central banks and financial regulators) the bearing

of financial risk has consistently and systemically slipped from the hands of the global financial institutions onto the shoulders of individuals, less able to cope with it!

1971 and 1975 were also the years when the global liquidity spigots were left wide open “ad infinitum”! All subsequent events just filled the pages of a financial history book that was already in the works since August 1971.

It is important, therefore, to understand that today’s financial mess is part of a systemic debasement of the global financial system that started decades ago. Along the years and decades, capital was displaced from under the control of central banks and governments into “private” individual and institutional hands, often in foreign countries, and in the “shadow banking system”. Governments and central banks, as a result do not have adequate control of the economy and financial markets.

It is disappointing, indeed, to witness the immense lack of knowledge of leading policy makers around the globe about how the economy and finance are intimately intertwined and about the ever evolving technical intricacies of sophisticated modern finance. This ignorance inexorably leads to miscalculation of risk exposure and to systemic risk’s day of reckoning.

When this well oiled system stops working, it is the policy makers and central banks that are called to rescue the financial system. How can they rescue effectively a financial system of which they simply ignore the increasingly fast evolving sophistication? Yet, the “Sovereign State” is overtaking the “Sovereign Individual”!

2. Currency Unions and the Euro Experiment

A brief glance at history reveals that, before the U.S. Dollar’s reign as a “reserve” currency began in earnest in 1920, there have been five well defined cycles, each lasting approximately a century, when a “superpower of the world” imposed its currency supremacy over other countries: Portuguese (1450-1530), Spanish (1530-1640), Dutch (1640-1720), French (1720-1815) and British (1815-1920).

Currency Unions too have a long history. They tend to come and go. Currency Unions have a good chance to be successful and stand the test of time only when:

- a) based on economic inter-relationships and acceptable power structures among union members, as well as between the union and other currency zones and currencies;
- b) rampant arbitrage is not allowed;
- c) there is also a political union (i.e., in USA, USSR, UK and Germany);
- d) there is a single fiscal policy;
- e) there is a central monetary management;
- f) wage and price flexibility are a “sine qua non”;
- g) there are clear convergence criteria; and...
- h) there are clear monetary convergence targets.

Ever since the fall of the Roman Empire, a dream of European unity and of a dominant European political structure has long animated the continent. After two World Wars, Europe was finally liberated from Nazism in 1945. In November 1989, with the tearing down of the Berlin Wall, the Eastern-half of the European continent was able to overcome 40 years of communism. Finally, European political division started healing. The healing process culminated with the historic milestone of May 1, 2004, when barriers created by the Cold War were finally removed.

With the accession of Bulgaria and Romania in 2007, the EUROPEAN UNION (EU) counts 27 Member States, with a total population of almost 503 million inhabitants -- 23 official languages. Despite all the agonising about whether or not it would work, the European Union has effectively created the world’s largest trade bloc stretching from the Atlantic to the borders of Russia, with a nominal GDP over €12 trillion (in 2010) -- or, approximately \$16 trillion, larger than the \$14.7 trillion of the United States. With 7% of the world population, the EU’s trade accounts for about 20% of global exports and imports, only second to the U.S.A.

Within this larger Community exists a separate currency union, the EUROZONE, made of 17 member states which have adopted the EURO as a common currency. The EUROZONE represents a total population of almost 332 million inhabitants, and €9.2 trillion GDP (2010).

The adoption of the EURO was expected to lead to economic convergence, but that has not happened. The European Union failed badly by not creating first a “political union”, which would have been the “indispensable solid foundation” for the economic, monetary and fiscal bloc’s survival.

In principle, the European dream was extraordinary: nations would be combined into a single economic regime, which in turn would evolve into a single united political entity! The idea was impressively imaginative and a great gamble! The trouble is that it has not worked.

The European project was to endorse “unity” in all respects: social, political, economic and strategic including security and defense. Being “European” would have to translate into sharing a “single fate” and “common burdens”. With hindsight, Europeans only shared interests, but not a single fate! Furthermore, the European Monetary Union, fierily trumpeted at the four corners of the planet as a smashing success, is turning out already to have been a monumental failure.

To be successful, a single-currency union must involve a central or federal government, with tax and public expenditure authority, based on a “national” or “federal” GDP, also able to run significant deficits when necessary. The absurdity in the EURO currency union turns around the fact that, within the OECD, member states in the EURO union are the only governments issuing sovereign debt in a currency -- the EURO -- that they cannot print at will!

Moreover, the EU has no provisions for monetary divorce! During the decades leading to the EU and the single currency launch, the possibility was not even remotely contemplated of a member state willing to exit the single currency system. As a consequence, no institutional and legal framework is available to allow a member state to quit the currency union.

Recently, the EURO has come under ferocious attacks in global financial markets as the European financial, economic and sovereign debt crises moved to a new level. The cruel reality is that “debtor” nations are lending to “borrower” nations! Furthermore, the European Union and the Central Bank, even with the benevolent help of the International Monetary Fund, could fail in their efforts to contain the crises.

European politics are in great turmoil nowadays. At stake are not only the very survival of the EURO and the EUROZONE, but also which country within the EUROPEAN UNION is truly able to take the EU's leadership to the next level. Emerging trends point to Germany using its economic power to reshape EU's institutions to its own liking, while France leads the Continent on foreign and military affairs.

The notion of "unity" as in "sharing a single fate" in Europe became suddenly energized when Greece run into financial trouble. The Greek crisis unveiled the profound paradox embedded in the "European Experiment". Being member of the EU and the EUROZONE, Greeks believed that Greece's problems would be EU's problems! In contrast, Berlin believed that Greek's problems were neither Germany's, nor EU's problems! People in other European countries had the same reaction and felt that Greeks were foreigners.

The EURO might not be allowed to disintegrate yet, although the risk of disintegration will exist as long as European nations remain obsessed with nationalism. Individual regional powers not sharing a common vision, with fragmented military and defense policies, with no united foreign policy, with diverse economic policies and fiscal systems, could lead to disintegration of the EU bloc and common currency. If disintegration is avoided, the EU could remain an alliance of states, nothing more than a system of relationships and interests between sovereign nations. Hence, the EURO would have trouble gaining serious and predominant "reserve currency" and "store of value" status.

The whole "European Experiment" was built on a dream that economic convergence -- without mandatory fiscal convergence -- would eventually lead to a politically united Europe. Economic convergence never fully happened. Even the introduction of a common currency did not set into motion, as hoped, economic convergence within member states.

Worse, the EU is left battling every day with the many fires inflaming its member nations. And, how the EU firemen deal with the spreading fire infers a highly troublesome trend ...that EU's member states are now able to unload risks inherent in national dwindling public finances and economic policy mistakes to the entire EU collectivity. Yet, the basic foundation of the common currency was "reliance" on the fiscal self-responsibility of each nation adhering to the EURO bloc Not only Europe is violating its

own founding treaty -- **“no country is liable for the debts of any other”** -- but the European Central Bank overcame the explicit ban, within its own constitution, not to be involved in state financing. Widely considered a fatal violation of its own charter, the European Central Bank purchases member states' sovereign debt in the secondary market and accepts sovereign securities as collateral even when they have been downgraded by rating agencies. Incidentally, the ECB bought Greek, Irish, Portuguese, Spanish and Italian sovereign bonds. As a result, the ECB holds a substantial amount of questionable sovereign debt.

The EU is quite resourceful too at times. On one hand, the EU shows commitment to established legal issues, rules and regulations, but on the other, when confronted with existential threats to the Eurozone, the UNION is able to work on the margins of its treaties -- i.e., the setup of the European Financial Stability Facility (EFSF) and subsequently the European Financial Stabilization Mechanism (EFSM) as an independent bank, headquartered in Luxembourg, which has nothing to do directly with either the EU or the EU bureaucracy. Both funds are truly at the very extreme margin of legality, based on applicable EU treaties. These bailout mechanisms do, indeed, infer how quickly the EU and the EUROZONE officials, out of necessity, sweep under the rug existing pacts if considered suicidal during crisis times.

History is in the making, as Europe tries to survive its crises with “bailout and hope” strategies! Meanwhile, the European Union has opened the door to the International Monetary Fund (IMF). This event is, indeed, a resounding precedent, which could most probably entail future consequences as this international institution could actually reign sovereign across the continent.

I believe that cracks are appearing in the sacrosanct “national sovereignty” of individual member states, even though in a “stealth” way. If a country resorting to an EU-IMF bailout is “de-facto” relinquishing its national sovereignty, and if several countries would have to face such a dramatic reality, then Brussels could strategically centralize the European sovereignty power.

Embedded into the EU-IMF bailout remains the fact that Germany, which funded the lion's share of the EU bailout, is effectively dictating

the bailed-out nations' retirement age, welfare benefits and pensions. Undoubtedly, this is the logic of a common currency, but it has important repercussions in terms of sovereignty!

In my view, it is possible that, out of necessity, a centralization process could emerge in Europe, where the people would not be asked for their opinion through risky national referendums. This scenario has every chance of becoming reality provided that European politicians design a simple founding "Constitutional Treaty" to truly unite the people of Europe!

The recent convulsion spreading across global financial markets might be, indeed, putting heavy pressure on the EU to rethink and to redesign the "UNION". Hence, threats to social stability could suddenly emerge, as mounting populist angst spreads not only in the countries being bailed out, but also in the countries doing the bailing.

3. Is an International Reserve Fund the Solution?

The world is indeed facing many economic challenges, namely the deleveraging across the West, while Japan remains stuck in deflationary doldrums, China resists a total de-peg of the Chinese Renminbi from the U.S. Dollar, and inflation picks up in emerging markets.

As the world is thorn with "liquidity" and/or "solvency" issues affecting an increasing number of countries, a call for global cooperation and coordination to address the debt problems in the United States and Europe is becoming louder by the day.

Investors, are consistently getting out of the U.S. Dollar and the EURO to literally stampede into the perceived-safety of the Japanese Yen and the Swiss Franc. Amid growing concerns over a global slowdown, Japan and Switzerland are, as a result, worried that economic problems in the U.S. and the EUROZONE are driving up the value of their currencies to "absurd" levels and hurting domestic exports.

Emerging countries, with the economy firing on all cylinders, are also attracting strong inflows of foreign capital pushing their currencies to alarming levels, threatening the vitality of their export sectors and raising inflation worries. Money flees low interest rates in the U.S., Japan

and Europe, to reach out to plumper returns in the currency of Australia, New Zealand, Brazil, Canada, South Korea, Israel, South Africa and ...Uruguay.

“Currency Wars” began to spread across the globe as Brazil, Japan and Switzerland tried to calm currency waters, but to little avail, if any, so far. Are there viable solutions at hand?

From the ashes of the 2007-2009 crisis, the G-20 came to life as global comprehension, cooperation and coordination was deemed to be the cure to the financial and economic agony spreading across the planet. Beyond the G-20, other ideas have emerged.

The World Bank sees a multipolar global economy developing by 2025, to which emerging economies -- Brazil, China, India, Indonesia and the Russian Federation -- would contribute the largest share of total growth. Concurrently, the international monetary system “should” cease to be dominated by a single currency. The World Bank identified the U.S., the EUROZONE and China as the major growth poles driving the world to its “new order”. Based on this unfolding reality, the World Bank envisions a multicurrency system in which the U.S. Dollar, the EURO and the Chinese Renminbi, would each serve as full-fledged international currencies. However, such a system would herald a return to a fixed exchange rate arrangement between major countries providing the “reserve” currencies in a world of “free capital mobility”. Moreover, a multipolar currency system, as suggested by the World Bank, would be a daunting task requiring policy coordination and loss of national monetary policy sovereignty. As we have observed, such a system has not worked in Europe!

The IMF proposed to adopt its SDRs unit (Special Drawing Rights, created in 1969 to support the Bretton Woods fixed exchange rate system) as a global reserve currency. Hence, China seems to favour this idea. Incidentally, Madame Christine Lagarde, Managing Director of the IMF, nominated Mr. Zhu Min, the first Chinese Vice-President Special Advisor at the IMF. Are these two events related? Do they infer future intense work for a “bancor” type supranational currency (idea fathered by John Maynard Keynes)? Will a supranational currency be the solution?

In 2008, even the United Nations gathered global experts in view of designing reforms of the international monetary and financial system. The UN-mandated “Commission of Experts” published in September 2009 a plethora of prescriptions aimed at global coordination of monetary policy and fiscal policy, a more balanced size of the financial sector as a share of GDP, a restructuring of the financial system, the role of central banks, more balanced allocation of capital to productive use, etc. The UN too, along with the IMF and China, seems in favour of a “Global Reserve Bank” and an international “reserve” currency, not linked to the external position of any particular national economy and designed to regulate the creation of global liquidity and maintain global stability.

All represent great ideas for the future!

4. A New World standing on Values

The world is indeed at a crossroad. The world will have to choose between an ever evolving financial sector mostly disconnected from the economy made of real human beings, living in a real world, working in a real economy and deserving fair compensation for hard labour.

Some global leaders have strongly called for moral values to be put back into the management of planet Earth. It is imperative, indeed! However, their call sounds so much like “populist” political prescription during the global financial and economic crises.

Yet, people need their leaders to be visionary and to have the political courage for setting into motion progressive economic, political strategies in advance for future generations. Unfortunately, politicians only worry about the next election! In the meantime, the world of finance never sleeps! It constantly moves forward with very innovative financial engineering.

Then, how to reconcile fairness and harmony, including innovation, in this unsettled world? I strongly believe that “fair compromise” must replace “nonexistent perfection”. Politics, economics and finance have rarely, if ever, in history been in equilibrium during this most needed and essential compromising exercise. The world is facing exactly this imbalance at the present time. The imbalance is so stretched that it will take political courage and large efforts for many years, from all involved actors, in order to attain some sort of equilibrium between political, economic and financial forces for the good of people.

Major reforms on Earth are always a product of necessity, not of mere ideological vision. I am convinced that a “new vision” will at some point emerge from the ashes of the current global crises.

However, instead of fantasizing on a “new global currency” and a “new global central bank”, both of which might take decades to develop, I believe that there is an impending need for immediate action. The citizens of world are already on the streets of their capitals wanting to work and to earn a fair price for it, to have transparent and accountable government and fiscal structures, as well as peace and harmony.

I have identified simple and straightforward actions that every government, if truly willing to work for the good of people, should consider at the national level, possibly also coordinate it internationally, without any further delay. These actions are:

Reconsider the 1. size of the government and cut down “all” excesses and “all” inefficiencies;

Simplify the 2. fiscal system, eliminate all niches -- only able to capture votes at election time -- and build a fiscal system more “just” and totally cleaned up of all complexities mostly incomprehensible to the people;

Reconsider the financial “3. derivatives” market structure in order to allow the use of derivatives only for hedging purposes of “real” transactions in the “real economy”.

Cut entirely the unnecessary 4. sophistication of financial markets across the globe.

Forbid the “5. making money with money” strategies and black pools activities (computers trading with computers) and let the people be part again of the financial market.

In other words, the financial market should stick primarily to its essential role of being the intermediary between savings and the use of these savings in the “real economy”. Banks should return to their main role of financing the “real economy”.

I believe that these measures, although requiring real political commitment and daunting efforts, could be discussed, negotiated and implemented in a much easier and rapid way than any other visionary international new structure at the moment. **The people around the globe would understand, appreciate and support such efforts.**

Admittedly, these measures might sound retrograde at the present time. But, when the machine is broken as it is now, the clock must be stopped for a while and even turned back. A dose of common sense is necessary in order to consider each economic and strategic issue in the proper perspective. Then, global economies can rebound in a stronger and sustainable way in a **“NEW WORLD standing on VALUES”!**

Undoubtedly, as the world economy goes through major transformative change in its growth dynamics and industrial landscape, there will be time to design appropriate mechanisms for the global governance of economies, international liquidity and reserves, and the creation of global liquidity for specific global issues (famine and water, for instance), aiming at global growth and financial stability.

The current monetary system most probably needs to be totally overhauled in order to accommodate the new realities of globally intertwined economies.

Therefore, I strongly believe that the above-mentioned first steps must imperatively be considered in each country. Indeed, a solid building requires serious architectural work at its foundations first. Otherwise, the outcome could only be a “monumental ruin” standing on multiple ruins!

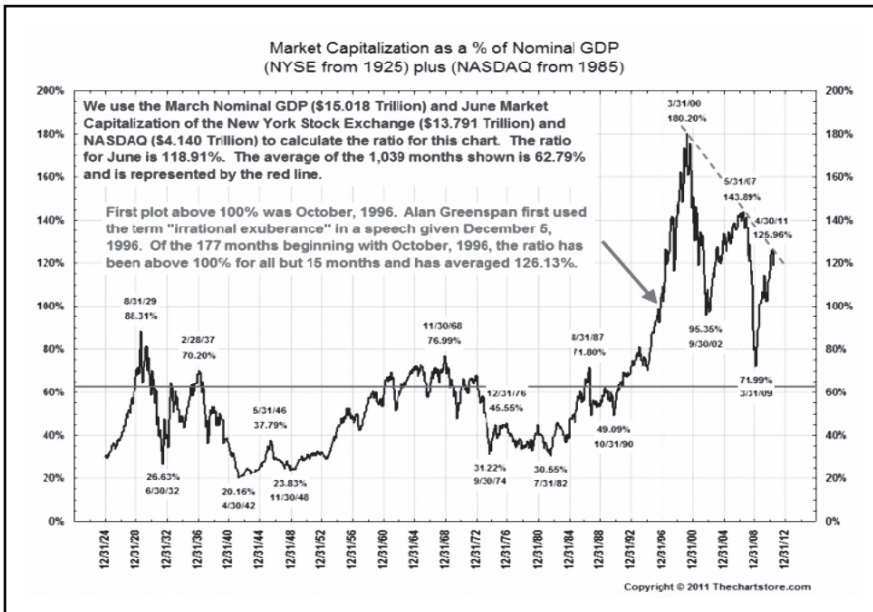
Allow me to conclude this presentation with some recommendations for your beautiful country. Uruguay should particularly focus on economic strategies that would engineer internally generated growth, able to ensure solid employment perspectives to all citizens, especially to its youth. Uruguay should reduce its dependence on foreign capital and be particularly vigilant to prevent foreign speculative capital from gaining substantial control of domestic strategic economic sectors and corporations. Political, economic and fiscal stability, are essential to attract foreign investments. But, above all foreign investors scrutinize the level of security provided by the government of Uruguay.

ANNEX

A.1 Historical Transitions

From ...	To
State markets	Free markets
Bureaucratic state	Business state
Dependence	Entrepreneurism
Competition	Cooperation
Nation-based companies	Global companies
Industrial age	Information age
Service economy	Experience economy
Networking	Cyber-connections
Sovereign State	Sovereign Individual
<i>...Sovereign Individual...</i>	<i>...Sovereign State...</i>

A.2 Market capitalization



A.3 CURRENCY UNIONS

...TEND TO COME AND GO...

... ONLY THE U.S. DOLLAR WAS TRULY SUCCESSFUL ...

... WILL THE EURO SURVIVE THE CURRENT CRISIS?

Mid-1700s	Massachusetts ended the monetary union of four New England colonies
1791 on	USA ... following its traumatic civil wars
1820s-1870s	German Customs' Union
1908	USA / Federal Reserve System and... U.S. Dollar as a single legal tender
1870s-1930s	French-led Latin Monetary Union (<i>including Belgium and Italy -- Switzerland joined in 1848</i>) ended up having to converge into a bi-metallic (<i>silver & gold</i>) standard; not based on a single currency
Around 1870s-1920s	Scandinavian Monetary Union
1920s-1970s	East African currency area
1940s on	French African Community Franc
1946-1971	Post-War International Gold Standard <i>Bretton Woods Agreements signed in 1944</i>
1999 on	<i>EURO ... following the two civil "World Wars" and ... Snake, EMS, ERM, ECU ...</i>

**A.4 Is the EURO a Reserve Currency?
International Confidence must be earned!**

	EURO's have not's ...
Geographically United	Geographically highly Fragmented
Overall Stability & Success	Major division on Defense & Foreign Policy among EU Member States
Political union & stability	No political union and political extremism
The strongest Defense technology on Earth	Little or no Defense technology
Single System of Law	Different Systems of Law
Democratic Constitution (<i>200 years old</i>)	No general Democratic Constitution
Single Language	Many Languages
Federal System of Government	No Federal Government
Single Nationhood & Patriotism	A collection of Individual Statesintensely Nationalist
Strong domestic Consumer demand	Weak domestic Consumer demand
Single Scheme of Social Services	Varying Schemes of Social Services
Relatively Youthfull Population	Population graying into Old Age High Unemployment especially among Old and Young age population
Minor Dependence on Exports	Huge Dependence on Exports
High Productivity	Low Productivity
Focus on Profitability	Focus on Cash Flow and Market Share
...etc...	...etc...

A.5 EUROPE'S Milestones -- 1948 to present

WHEN	HOW	WHO	WHAT
1948	Treaty of Brussels, based on the philosophy of French Statesmen: Jean Monnet, Robert Schuman	France, Belgium, Luxembourg, The Netherlands and the United Kingdom	Countries agreed on military assistance, economic, social and cultural cooperation
1949	Council of Europe	France, Belgium, Luxembourg, The Netherlands and the United Kingdom	Forum for all European countries to discuss informal co-operation (<i>today it counts 47 member states</i>)
1951	Treaty of Paris	France, Germany, Italy, Netherlands, Belgium and Luxembourg	ECSC - European Coal and Steel Community, which came into force in 1954
1957 1958	Treaty of Rome Treaty of Rome ...signed	same member countries	European Economic Community & European Atomic Energy Community, to work in cooperation with ECSC
1967	the three communities merged	same member countries	European Communities - EC / cooperation in economic and agricultural affairs
1973	EC's First Enlargement	Denmark, Ireland and U.K.	became full EC members
1979	European Monetary Sys.(EMS) European Currency Unit (ECU) Exchange Rate Mechanism (ERM)	France, Germany, Italy, Netherlands, Belgium, Luxembourg, Denmark and Ireland U.K. did not join the ERM system	The EMS is introduced; the ECU used as a real currency in travelers' cheques and bank deposits; the ERM system gives national currencies a central exchange rate against the ECU; 'currencies' fluctuations boundaries are established
1981	EC's Second Enlargement	Greece	joins the EC and becomes the 10th member
1986	EC's Third Enlargement	Portugal and Spain	join the EC and take the EC's members to 12
1991 1992	Treaty of Maastricht Treaty of Maastricht ...signed	12 member countries	European Union replaces the EC - EU citizenship, timetable for economic and monetary union, and economic and budgetary criteria for EU membership (<i>convergence criteria</i>), common foreign, security and judicial policy (<i>asylum, immigration, drugs and terrorism</i>)
1993	Copenhagen European Council	12 member countries	set criteria for membership: a) democracy, the rule of law, human rights, respect for minorities; b) a functioning market economy, the capacity to cope with competitive pressures; c) to apply effectively the EU's rules and policies
1994	European Monetary Institute EMI	Eurozone 11 member states	EMI set up to handle transitional issues of states adopting the EURO and to prepare the creation of the ECB - European Central Bank
1995	EU's Fourth Enlargement Schengen Agreement	Austria, Finland and Sweden	Join the EC, which now has 15 members; and the Schengen Agreement / 13 members only, as... U.K. and Ireland stay out of it
1997	EU Stability and Growth Pact The Schengen Agreement becomes part of EU law	15 member countries	The Maastricht Treaty is updated and a two-speed Europe begins, i.e. closer co-operation ^o or flexibility ^o between countries; 1991 economic and budgetary criteria tightened to require strict fiscal discipline from member countries willing to forge ahead on certain issues
1998	Treaty of Amsterdam ECB - European Central Bank	Eurozone 11 member states	Established on June 1, 1998, a de facto successor of the 1994-European Monetary Institute (EMI), with main mandate to maintain price stability within the Eurozone
1999	€ -- EURO name officially adopted in 1998	11 of the 15 EU countries, Greece, Denmark, Sweden and U.K. opt to stay out	Euro bills and coins make their grand entry into the international currencies' market on January 1st.

A.5 EUROPE's Milestones -- 1948 to present ...cont.d from previous page

WHEN	HOW	WHO	WHAT
1999	€ -- EURO	11 of the 15 EU countries, Greece, Denmark and U.K. opt to stay out; Sweden turned down the EUR in a 2003 referendum	Euro bills and coins make their grand entry into the international currencies' market on January 1st.
2000	Nice Summit		EU institutional reform; negotiations' road-map
2001	€ -- EURO	Greece	adopts the Euro, the 12th member (<i>out of EU-15</i>) Denmark and U.K. obtain special EUR-opt-outs; Sweden obtains de-facto EUR-opt-out
2002	€ -- EURO	12 members	Euro completely replaces former national currencies
2004 May 1	EU's Fifth Enlargement to 25	Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia	join the EU and commit to joining the Eurozone as soon as admission criteria are met
2004	Treaty establishing a European Consitution	signed by EU-25 member states	to come into force, it must be ratified by all 25 countries; Created a European Foreign Ministry
2005	Common European Constitution	France and the Netherlands	reject the EU Constitution project in referendum; EU leaders declared a period of reflection'
2007	EU's Sixth Enlargement to 27	Bulgaria and Romania	join the EU The European Union celebrates its 50th birthday
2007	€ -- EURO	Slovenia	adopts the Euro as the 13th Eurozone member
2008	€ -- EURO	Cyprus and Malta	adopt the Euro, 14th and 15th Eurozone members
2009	€ -- EURO	Slovakia	adopts the Euro as the 16th Eurozone member
2009 Dec. 1	Treaty of Lisbon	all 27 EU member states	amended the Maastricht Treaty (EU) and the Treaty of Rome (EC); set up the election of a long-term President of the European Council (<i>Herman Van Rompuy</i>) and the EU's Foreign Affairs and Security Representative (<i>Baroness Catherine Ashton</i>)
2011	€ -- EURO	Estonia	adopts the Euro as the 17th Eurozone member
TODAY	Candidate Country	Croatia	former Yugoslav republic
	Candidate Country	Macedonia	former Yugoslav republic
	Candidate Country	Iceland	
	Candidate Country	Turkey	still kept on the sideline, despite signing an association agreement with EEC (<i>European Economic Community</i>) in 1963, one of the first to enter the waiting room!
	Potential Candidate Countries	Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia	according to EU's official website information
TODAY	EUROZONE	direct usage by 17 members	Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.
	€ -- EURO	three States with issuing rights ...	Monaco, San Marino and Vatican City
	€ -- EURO	sole currency of ...	Kosovo, Andorra, Montenegro and ZWE
	€ -- EURO	currencies pegged to the EUR ...	such as the CFA Franc; Moroccan Dinar, Comorian Franc, Cape Verdean Escudo, Bosnia Herzegovina's Marka, etc.
TODAY	ERM II	Danish Krone, Latvian Lats and Lituianian Litas	ERM II -- Exchange Rate Mechanism requirements to which countries must strictly comply with, prior to full adoption of the EUR common currency

PHILIP SUTTLE¹

I think I should actually congratulate Uruguay for organizing this very interesting looking conference. Also, in light of what is going on and what the previous speaker said, for showing the world that there is life after selective default. It must be said that there are many people in Europe looking at the experience of Uruguay, what happened earlier, during the past decade, and the lessons learned. Well done.

I am going to focus my comments on five areas. My comments will focus much more on shorter-term economic issues, so I think it fits very nicely with the previous presentation; they are both very different but I think they both provide interesting angles. First, I will spend some time talking about where we are, particularly how to interpret the most recent global dip. The second topic I want to spend some time on is what comes next. Third, how will the Euro crisis play out – we’ve heard some of that in the last presentation so I will not spend too much time there but I think we agree that there is a mess ahead for Europe, it is a very challenging situation. The fourth topic is actually whether S&P was right to downgrade the United States – I’ll leave my answer until I get to that, I will keep you on tenterhooks. Finally, I will conclude on how emerging economies will perform against this backdrop.

Chart 1 shows a lot of numbers, and that tells a very clear story which is that the global economy has slowed quite uniformly in recent months. In the second quarter – about three quarters of the data are in so far – it looks as though global growth has slowed to about a 2 % pace. In what we like to call “mature economies” (the OECD or what used to be high-income countries) growth is slowing to about 1 % in the first half of the year, with Japan in particular going into recession – as we’ll see in a moment – caused by the earthquake and the tsunami. What is equally noticeable, however, is that the emerging economies have held up pretty well. Through the first quarter of the year they showed some slowing which was most pronounced in East Asia, the Asia Pacific region.

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All of this just underlines the fact that global slowing has been pretty uniform and I think we are not quite at the point where we are worried about recession risks but we are clearly flirting with a period of sustained sub-par growth, with the manufacturing sector, as you'd expect, being on the weak side of average. But I think that it is quite important to know that it is not just inventories and manufacturing volatility that is giving us this slowdown: we've had a crossover.

Chart 1 - Interpreting the most recent global dip.

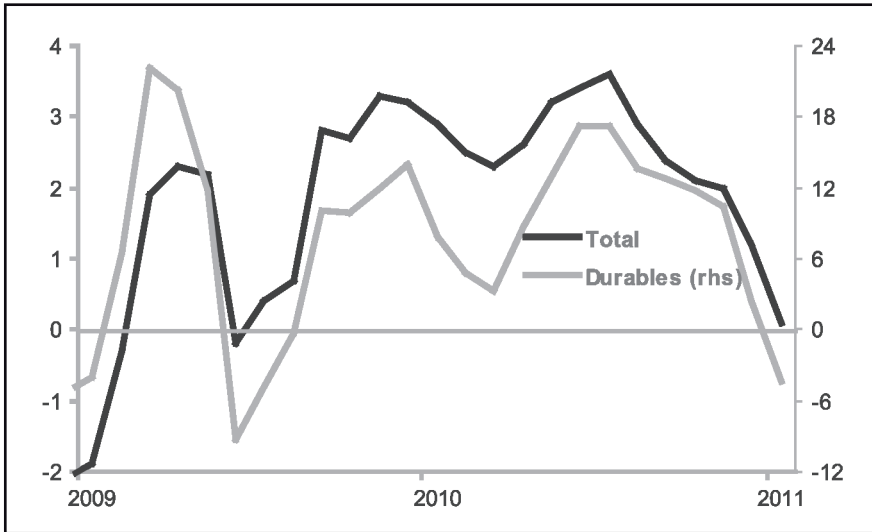
Global Real GDP Growth				
Percent q/q, saar	10H1	10H2	11Q1	11Q2
Global	<u>4.9</u>	<u>3.5</u>	<u>3.4</u>	<u>2.3</u>
Mature Economies	<u>3.3</u>	<u>1.6</u>	<u>0.8</u>	<u>1.1</u>
United States	3.9	2.4	0.4	1.3
Euro Area	2.6	1.3	3.4	0.7
Japan	4.4	0.7	-3.6	-1.3
Emerging Markets	<u>7.3</u>	<u>6.2</u>	<u>4.8</u>	<u>7.3</u>
Latin America*	7.0	3.9	4.9	4.3
Emerging Europe	3.1	6.0	3.8	3.4
Asia/Pacific	4.9	3.5	9.5	4.1

* Includes IIF estimates

Chart 2 actually highlights the United States. Across the world we have seen consumer-led weakening in recent months. You can see the United States – the dark line. This axis shows the total consumer spending and the grey line at durable goods spending. You can see that, as always, durables spending had led total spending down. Obviously part of that is also consumption. A significant part of that, we think, is related to disruptions with Japan.

Chart 2 - A Consumer-led Weakening

**Real Private Consumption
Percentage 3m/3msaar (both scales)**



So, when you take a step back and ask yourself what are the drivers of what I like to call a ‘mini-cycle’, I think there are five essential features which have given us this weakening. In some sense, looking at those five features is useful when thinking about where to go next. They are:

- Fiscal tightening in Mature Economies
- Monetary tightening in Emerging Markets
- Oil price surge
- Japan earthquake disruptions
- Debt crisis worries?

The first is basically fiscal tightening in the mature economies which, although I think we’ll all agree there’s still a lot of that ahead, I believe it’s important to recognize that we’ve already entered a phase of significant fiscal tightening.

The second factor, which I think has highlighted its importance these days, is that we've had a significant round of monetary tightening in emerging markets, specially in countries like China and India, Brazil included as well, obviously. Both got a little concerned about inflation tensions at the end of last year and this year they have tightened their monetary policy. Maybe it is too early to expect all of that tightening to have had its effect, but certainly I think the first wave of impact has spread.

The third factor which I think we all recognize as very important is the surge in oil prices, some of it triggered by global demand but a lot of it triggered by the instability coming out of the Middle East.

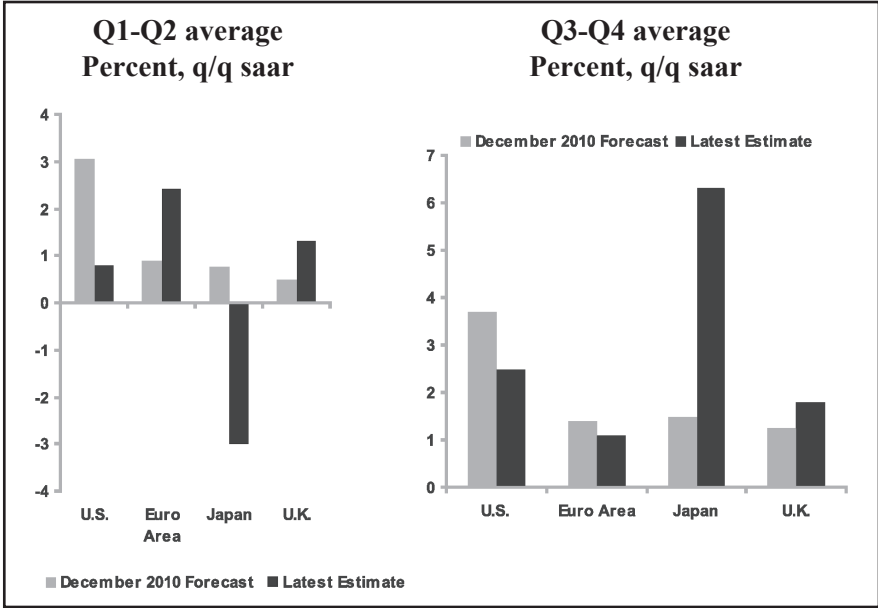
The fourth factor which I think is very important but hopefully will be short-lived is the disruptions resulting from the Japanese earthquake, and that it is true specially in the auto sector. I think we've all been reminded once again how powerful the auto sector is.

And the fifth factor which I think is a lot more recent and therefore probably it's premature to think that this factor is fully played out in any sense – or maybe even partially played out – are all of the worries relating to the debt crisis in Europe, the renewed worries there. Also, we can include the worries that we had in the United States.

But I think that as we look at these five factors and consider, looking ahead, how they will play out, it is fair to say that some of them are still clearly going to be with us.

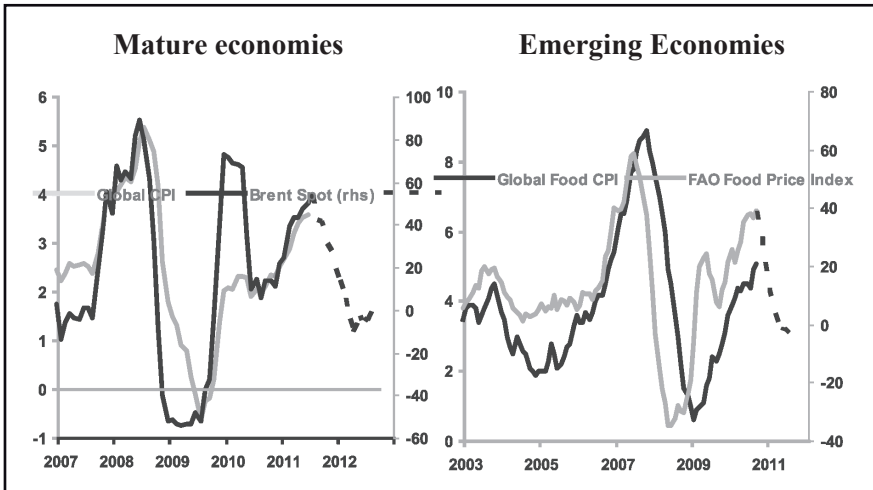
What I think is important to know here is that it is pretty reasonable to expect the second half of the year to be a bit stronger. I guess one can always hope, but I think that there is more than just hope here – there are a number of factors playing out, some of which I just outlined, and, as they get a bit reversed here, they could produce a better second half readout, most notably with Japan producing a snap back, and that will help other economies. We've already seen in the United States, for example, some of the June/July (specially July) indicators looking better, including in the manufacturing sector, in part because of the normalization of auto production as well as auto sales. I don't want to make too much of the auto sector, but I think it is very important to recognize that it's been a pretty powerful influence.

Chart 3 - 2011 REAL GDP



And I think on top of that you have to argue that, while there are some reasons for a temporary rebound, the outlook across the major economies for the second half of the year does not actually look that bright. You can see on the right hand chart on Chart 3, the dark bars show that we've got a very spectacular outlook in Japan but elsewhere – the growth rates for the U.S., the Euro area (the United Kingdom, for example) – are all pretty meager, in fact in the U.S. it is expected that growth will be about 2.5 % in the second half of the year, capping off the 1 % increase in the first half. So, over the year as a whole that's not too impressive and certainly underlines a disappointing picture.

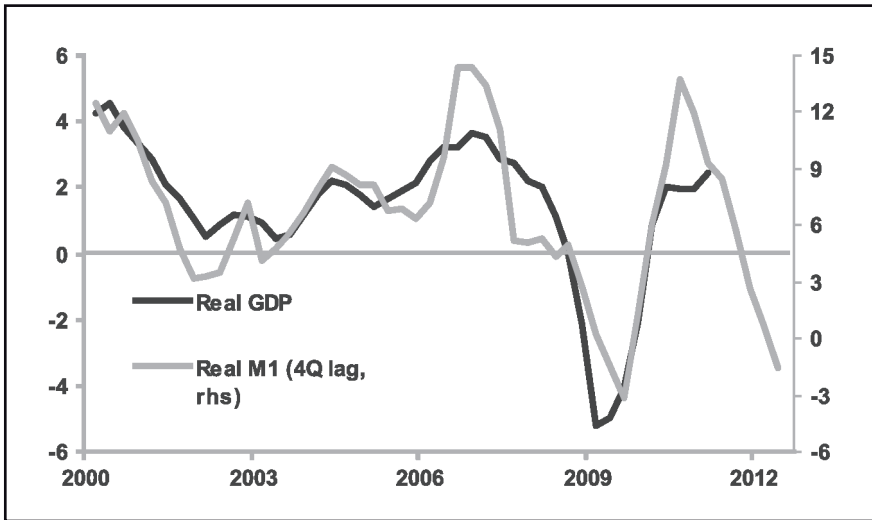
The other point I would like to emphasize – and this is perhaps most relevant to the emerging world because this is the good news about this short-term cyclical story – is that we should see receding inflation pressures. All the signs are there, in the pipeline: whether we're looking at oil prices, food prices or simply more general demand trends, all signs point to a moderation of inflation.

Chart 4 – Inflation Pressures Receding

How will the Euro crisis play out? I will make two basic points. One, I do not really know, but what I do know is that it's not going to look good, it's not going to be pretty. I think the previous speaker did a wonderful job of setting the backdrop to the Euro crisis and emphasized that this is really as much a political struggle or a political set of issues as it is an economic set of issues. That is part of the reason that I, an economist, have no idea how all those issues work and think and interact with one another. But we have to say that the precedents so far, in the last year and a half of the crisis, have not been good. As we like to say in financial markets, the politicians have not typically got out ahead of the curve; instead, they have typically responded to problems. So, I think it is reasonable to expect difficulties ahead.

I am not a monetarist, but I do like to show that if you look at the relationship between M1 growth in Europe and the leading indicator one year ahead, real GDP growth, it does seem to work quite well and it does not augur particularly well for the year ahead (Chart 5).

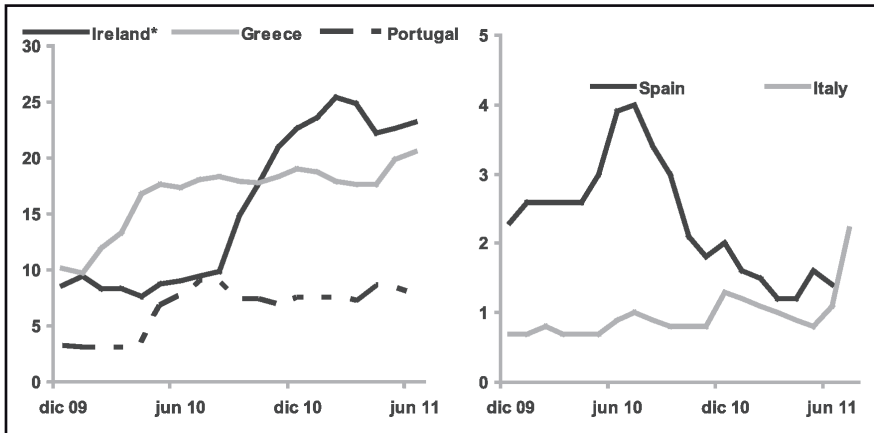
Chart 5 - Real GDP and M1 Real Growth
Percent change over a year ago (both scales)



In a very tough financial environment, specially in the banking sector in Europe, the ECB is likely to play a continued role as the lender of last resort, in a sense, as the de facto fiscal authority, because the ECB is really lending to the banks so that they can maintain or in some cases increase their sovereign debt holdings and if the ECB was not able to do that then banks would be forced to sell their sovereign debt holdings more aggressively than they have been doing then the problem would calm down a lot quicker than it is likely to do. My sense here is the Euro crisis is just going to play out as a bad story for the next year or year and a half.

Chart 6 - The European Central Bank is the lender of last resort, for now

**Lending to Monetary Financial Institutions
Percent of banking sector assets**

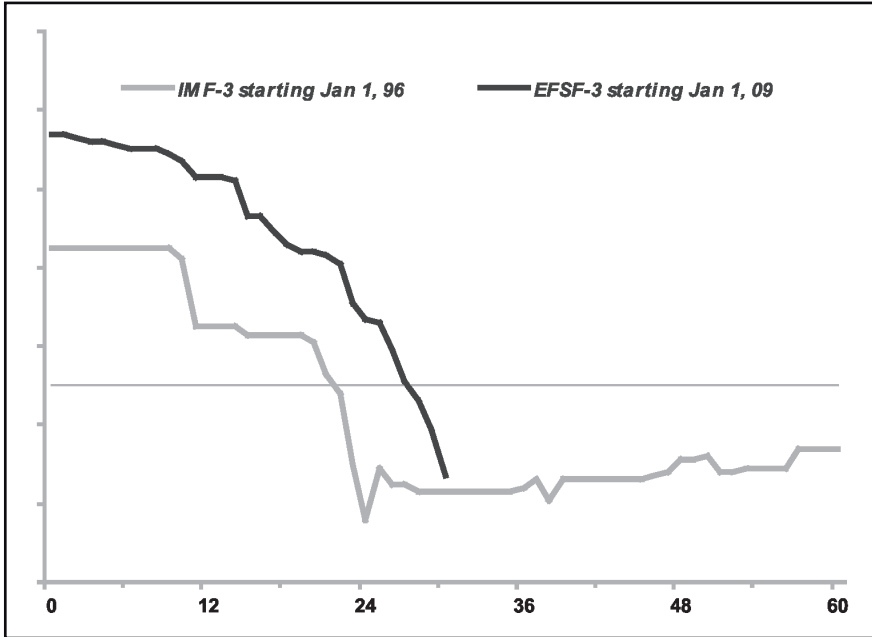


But I think what we're painfully learning is that really the Euro area officials face a choice between seeing the system fragment in some fashion – I do not think we'd want to choose that option – and the other option, which is some degree of accelerated fiscal integration. We essentially think that the latter is the approach that is likely to be followed, not a preemptive measure, but the increasing widening of fiscal integration in the form of more and more centralization of debt and debt guarantees.

One more reason for that, which I think is highlighted by Chart 7, is that the credit environment at the sovereign level within Europe is really very serious. If we compare the deterioration of the credit worthiness of what we like to call the EFSF-3 (which is basically Greece, Ireland and Portugal), if you line that up against the deterioration of credit in East Asia in the Asian crisis in 1997-98, you can see that already we're not doing so well. Frankly, a year and a half into their crisis in East Asia they'd already found a possible beginning to improve and I think we're nowhere near that in Europe. So, I think this is really looking to be quite a serious global credit event which I think will require the choice of either euro fragmentation or, more likely, some degree of accelerated euro fiscal integration.

Chart 7 - Europe`s choice: EMU survival requires Fiscal Integration

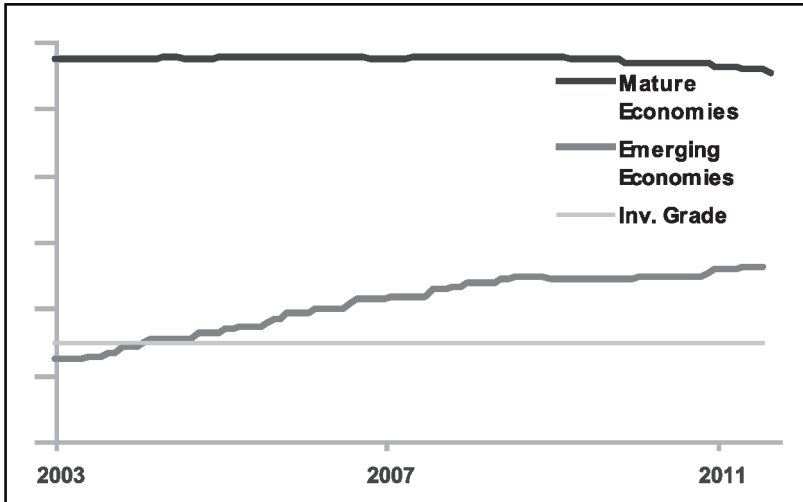
Sovereign credit ratings on long-term debt Average of Moody`s, S&P, and Fitch long-term ratings



Finally, that takes me to my fourth set of topics, which is ‘Was S&P right to downgrade the United States?’ We can all debate the validity and worth of sovereign credit worthiness indicators and sovereign ratings, but I think my answer would be, clearly, yes. Just to be fair to countries around the world, and I would refer to that point by saying that among the mature economies it’s not just the U.S. that needs to be downgraded. I think where we are fundamentally in the world is that we are seeing a significant rotation in creditworthiness, in a sense away from high creditworthiness in the mature economies and low creditworthiness in the emerging economies to something of a convergence.

Chart 8 - Was S&P right to downgrade the US?

Sovereign term ratings on long-term debt
Average of Moody's, S&P, and Fitch long-term ratings

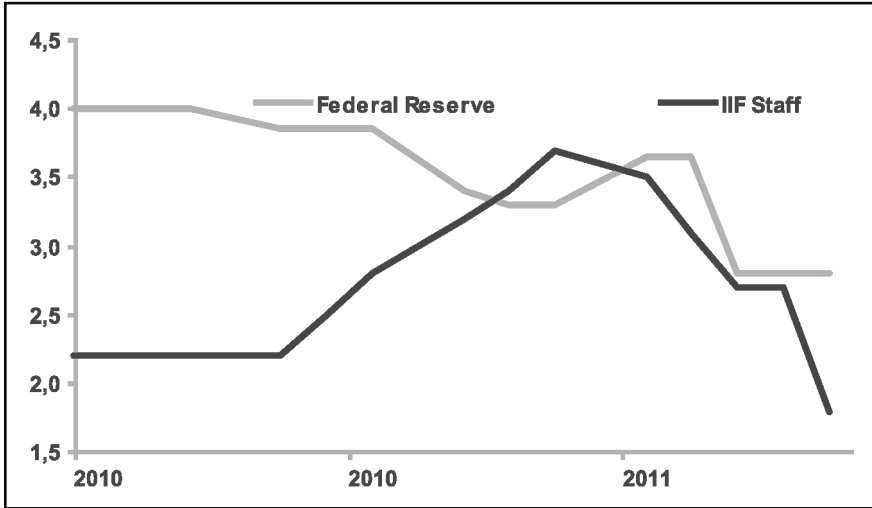


In Chart 8 you can see the indicators. The bold line represents the mature economies, the grey line represents the emerging economies. My sense here is that in five or ten years time we are going to be converging on a sort of A+, AA type range; Uruguay will be on the way up and the United States and another set of countries will be on the way down. Frankly, this reflects all these fundamental developments that we have been looking at for the past 15-20 years. Latin America has managed to get its house in order, specially on the fiscal side, and the mature economies have done the opposite, so sovereign ratings should be expected to respond to that.

Chart 9 - Domestic vulnerability

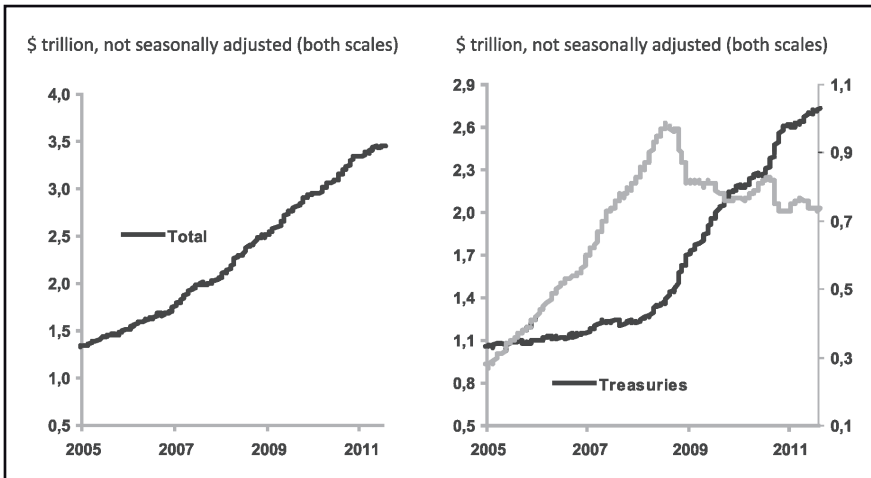
Real GDP forecast for 2011

Q4/Q4 (as published in IIF monthly Global Economic Monitor)



One of the features of the United States is that we are struggling to grow and we are struggling to establish credible recovery. In that sense, from a sovereign creditworthiness perspective, there are problems on both sides of the calculation. The numerators of the debt ratio keep going up, debt levels keep going up because in a low-growth environment it is very hard to get the budget deficit under control – we have seen that very recently in Washington, all this rhetoric about doing something while very little gets done – and in a low-growth environment this is doubly bad because the denominator of the debt calculation just does not go anywhere. So, the numerator is going up and the denominator is flat to down. That’s very much the environment that Japan has found itself caught in recently and, I hate to say it, but the United States is looking as if it could get there as well.

Chart 10 – External Vulnerability
Fed custody holdings on behalf of foreign insitutinons



On Chart 10 we point to the external vulnerability of the United States. It is not just bad that we have domestic debt which is high and rising, but a huge amount is owed to foreigners. In fact, if you look at the left hand-side you can see that just the Fed itself has custody holdings on behalf of foreign central banks that now total about 3.5 trillion dollars, and you can see that in recent years foreign central banks – maybe the Central Bank of Uruguay would be proud of that – have been sellers of agency securities and buyers of treasury securities.

How will the emerging economies perform in this environment? I think one point to make is that it is going to remain a very challenging external environment for emerging economies. But I guess what we feel is quite important is that the domestic demand environment in many emerging economies remains quite favorable. You can see for Latin America, for example, we project around 4 % growth for this year and next – slower than 2010 but 2010 was a year of unusually strong recovery. We continue to project East Asian growth at a 7 to 8 % rate, obviously much of that led by India and China. I must confess there are probably more down-side risks in some of these numbers than up-side risks at the current time. It must be emphasized that with a very permissive monetary environment in the emerging world the prospects for domestic demand are quite good.

Chart 11 – How will the emerging economies perform in this environment?

GDP Growth by region

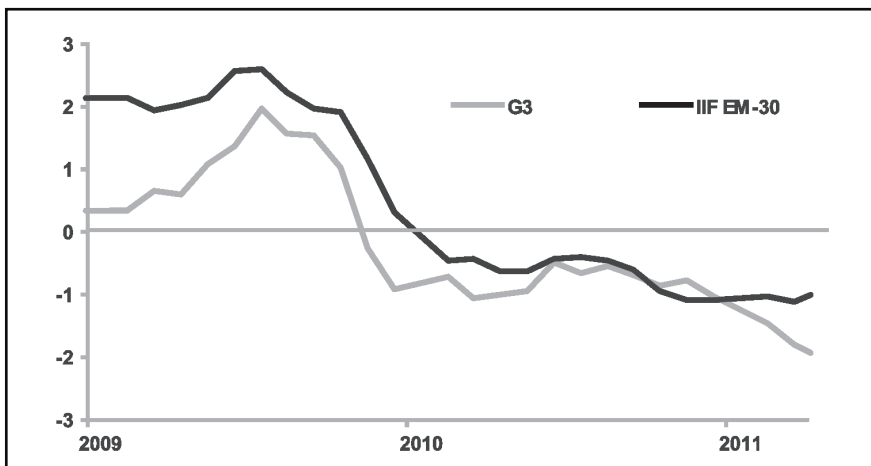
Percent y/y	2009	2010	2011f	2012f
Emerging Economies	<u>1.6</u>	<u>7.3</u>	<u>6.3</u>	<u>6.1</u>
Latin America -	2.4	6.2	4.3	4.0
Emerging Europe -	5.8	4.5	4.7	4
Asia/Pacific	6.8	9.4	8.0	7.9
Africa/Middle East	0.9	4.2	4.6	4.5
Mature Economies -	<u>4.1</u>	<u>2.6</u>	<u>1.5</u>	<u>2.2</u>
World -	<u>2.2</u>	<u>4.4</u>	<u>3.5</u>	<u>3.9</u>

f: Forecast value.

So far, what people in Uruguay, Brazil, Argentina, China, India, Turkey, what people across the emerging world need to worry about is first of all the U.S., Japan and Europe, that's a problem. But the key challenge is having to live with global monetary policy of zero interest rates.

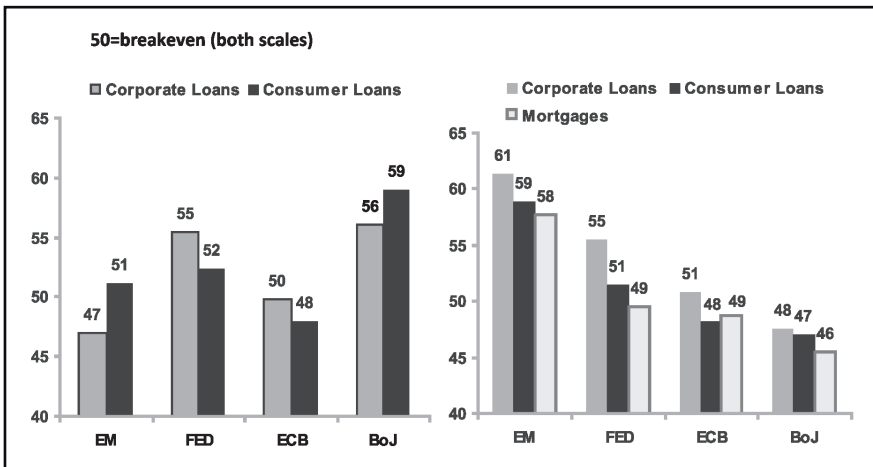
Chart 12 - The key challenge

Real policy rates
Percent, deflated by headline inflation



And I think if there is one point I would take exception with the previous speaker is that she put a lot of blame, in a sense, on the global financial system, on the global banking system, but I think you have got to worry a little bit about the policy makers and their responsibility here, in setting interest rates at these levels and keeping them there. We just heard the Feds say that they are going to keep them there until the middle of 2013... that produces a very dangerous backdrop against which I think financial markets have to operate. In a sense, you cannot think of global financial players as innocent bystanders as that would not be the case – they are certainly not innocent and they are not bystanders – but there is a system in which they have to play and operate to maximize profits, etc. And I think the picture I am showing here is a very toxic system, this is not a good environment got financial markets to operate in.

Chart 13 – Divergent credit conditions



One thing I'd like to draw your attention to is that we do a survey of the Institute's bank members – essentially among emerging market banks – and what we are doing is asking them about credit conditions as well as demand conditions. On Chart 13, on the left hand side you have a picture of whether banks are tightening or easing conditions. I think for us the good news is that in the emerging world banks are actually tightening or being quite cautious on their supply side conditions – the credit. In the left hand chart, the bars that are below 50 mean that they are tightening credit

conditions, above 50 it means net easing. You can see on the supply side how banking members are actually being quite cautious, but if you turn to the right-hand picture what you see is some very dramatic news on the demand side. And that just goes back to highlight what I was emphasizing earlier: that the conditions here in the emerging world are very, very buoyant in terms of domestic credit and domestic demand.

Concluding thoughts: there are five basic sets of issues to go back over. First, the global growth picture is not very good but, most important of all, global conditions remain very divergent. I would say down-side risks have intensified in recent months, although, having said that, we still think that the second half of the year will be better, so we had a bad first half and will have a slightly better second half, and then 2012 will not be that good. The European situation is bad and it is going to get worse; we are going to have a lot more local Sarkozy summits and ad hoc meetings to fix the plumbing. The fourth point would be that the U.S. is facing formidable fiscal headwinds, leaving a lot of pressure on the Fed – I would say placing excessive pressure on the Fed. I think if you go back ten years in the emerging world and I asked you all what you would like you'd all say more credit, a better environment for credit, let's have more external finance. All I can say is be careful what you wish for.

JULIO DE BRUN¹

Es difícil atar el montón de puntas que este tema genera en un intervalo tan breve, por lo que aunque voy a dejar muchos cabos sueltos, prefiero concentrarme en algunos aspectos, en beneficio del tiempo y la posibilidad de tener una ronda de preguntas posteriormente.

Cuando uno ve las noticias y analiza estos temas, ya sea en charlas públicas como ésta o en reuniones entre amigos, tiene la tendencia a mirar los problemas de Europa como miraba los de Latinoamérica hace quince o veinte años: de manera separada aun cuando estuvieran pasando simultáneamente.

En los años ochenta uno veía como Argentina, Uruguay, México o Brasil resolvían su deuda y sus problemas fiscales, de inflación y demás, como casos separados. Y de la misma manera se trataron analíticamente otros episodios posteriores.

En esta cuestión de Europa se tiende a hacer lo mismo; uno dice ‘bueno, hoy los mercados atacaron a Francia; hoy los mercados atacaron a Italia; Grecia pasó este paquete de medidas; será posible o será sostenible la deuda de Grecia; será sostenible la deuda de Portugal, de Irlanda, de España’ ... en fin. Uno tiende a recibir noticias, analizarlas, procesarlas y discutir las como si estuviéramos hablando de un conjunto de países, tratándolos individualmente. Me gustaría centrar mi charla de estos minutos en si ése es el enfoque correcto, si deberíamos estar mirando las cosas de esa manera. Creo que esto es relevante porque, además, a nivel de líderes políticos también se tiende a abordar el problema de esa forma. Ciertamente ese sería el caso correcto si estuviéramos hablando de países con ciertos vínculos comerciales o financieros entre ellos pero esencialmente separados y en ausencia de un proyecto político de unión por detrás de ello. En ese caso sí diciéndose podría decir: ‘veamos cómo cada uno de estos países resuelve sus problemas fiscales y sus problemas financieros y su respectivo sistema financiero y, en definitiva, sus problemas de endeudamiento’.

1 Presidente de la Asociación de Bancos Privados del Uruguay.

El punto es que hoy por hoy, y repitiendo expresiones de quien me precedió en el uso de la palabra, estamos realmente en un cruce de caminos en cuanto a si debemos seguir discutiendo las cosas de esa manera. Viendo, por lo tanto, cómo distintas instituciones de cooperación financiera internacional existentes más las que se están desarrollando en la propia Europa intentan resolver estos problemas soberanos en forma aislada o si, por el contrario, se decide finalmente a nivel político tomar ésto como un único problema, relacionado no sólo con el euro como moneda sino con Europa como proyecto político. Yo creo que esa es la principal cuestión que se va a ventilar en los próximos meses o en los próximos años: si de esto surge un proyecto de una Europa políticamente unida y, como corolario de ello, una moneda común, o simplemente tenemos un conjunto de países con acuerdos comerciales, acuerdos financieros y algún régimen monetario de mayor o menor alcance, según lo que pueda ser la situación de cada uno de ellos.

Entonces, aquí surgen dos o tres cuestiones que hacen a la dificultad de este asunto. Como ya había las enumerado Cosima en su presentación, hay muchas razones por las cuales no se puede pensar que Europa sea un área monetaria común o que tenga las características de un área monetaria común. En este momento, además de todos los problemas políticos ya mencionados, Europa está en una situación con dos claras divergencias en materia de tendencias de crecimiento en los últimos años: en lo que ha sido el relativamente fuerte desempeño de algunos países – el caso de Alemania, el caso de Francia – y el verdaderamente débil desempeño de otras economías fuertemente afectadas por problemas de competitividad y productividad, como el caso de Portugal, Grecia, la propia Italia y España cuando uno deja de lado todo lo que fue el fenómeno asociado a la construcción. Esas diferencias de productividad, esas diferencias en ciclo económico, ciertamente son puntos que en la literatura de áreas económicas se señalan en el sentido que si hay shocks tan dispares y situaciones cíclicas tan dispares no es conveniente (o no es razonable) estar pensando en un área monetaria.

Debo precisar que respecto de estos argumentos siempre pensé que si hay un lugar en el mundo que tiene pocas de las características de área monetaria común que se señalan en la literatura es el de los Estados Unidos de América. ¿Qué coincidencia de ciclos económicos o de convergencia de productividad puede haber entre Nebraska, Alaska, Florida, Louisiana, California, Nueva York...? Entonces, en realidad, cuando uno mira los requisitos de una zona monetaria común, más que una cuestión normativa sobre

qué lugares del mundo o qué regiones del mundo deberían constituir áreas monetarias y qué regiones no deberían serlo, , uno simplemente debería ver esas condiciones como el tipo de obstáculos que tiene que superar quien desea llevar adelante un proyecto político de unificación. En otros términos, para lo único que deberíamos mirar las condiciones de la constitución de un área monetaria es para preguntar: “¿Usted, en su proyecto político, está dispuesto a sobrellevar todo esto y seguir adelante más allá, pase lo que pase?. ¿O no?” Si no está dispuesto, bueno, vaya pensando en otra cosa, no se complique la vida con estos temas, pero si está dispuesto mire lo que tiene por delante.

Entonces, cuando uno mira lo que ha sido la diferencia de desempeños en Europa, que en definitiva han ido llevando a esta situación actual, en primer lugar uno observa un beneficio evidente de lo que fue para algunos países integrarse a la zona euro en términos de reducción de deuda, en términos de compresión. Un poco relacionado con esta simbiosis que ha habido en los últimos treinta años entre monedas, entre papel moneda o dinero fiduciario y deuda de países, la mera adhesión al euro por parte de algunos países, generó una compresión de los spread de deuda más allá de lo que se justificaba por la propia dinámica de las finanzas públicas en cada país. Independientemente de que en un país tuviera 4, 5 o 6 por ciento del producto de déficit o tuviera un tamaño de deuda de 50, 60, 70 o 100 por ciento del producto, todos los spread en la zona euro se comprimieron simplemente por el hecho de que un país entrara al euro y por lo tanto pasara a formar parte de este club, como si la moneda común de alguna manera garantizara la solvencia de todas las deudas soberanas.

Lamentablemente, en muchos de estos países el beneficio de la reducción de spread, el efecto ingreso favorable que resultó para las economías de la reducción de spread, se tradujo en gran parte en gasto improductivo más que en contribuciones a la mejora de la productividad. Así, observamos esta trayectoria de gastos ascendentes en todos estos países, exacerbada por la crisis de fines de la década pasada y con la recesión que estos países tuvieron en los últimos años.

Entonces, hoy por hoy tenemos un problema de altos niveles de deuda y elevado déficit fiscal en varios países europeos, y uno podría dirigir una charla de estas en dos sentidos. Uno, cómo cada uno de estos países eventualmente resuelve estos problemas: ¿es sostenible la deuda de

Grecia?; ¿es suficiente el esfuerzo fiscal que se está haciendo?; el tamaño de la deuda de España, ¿es preocupante o es más preocupante el nivel de su déficit fiscal?; ¿es posible que en algún momento converja hacia niveles de resultados fiscales más sostenibles en el tiempo? Uno haría un análisis de cada uno de estos países y diría: “bueno, Grecia no es sostenible; Italia capaz que sí lo es; España sí lo es, pero necesita reducir su desequilibrio fiscal”, y así por el estilo.

En esta oportunidad me gustaría plantear las cosas de otra manera, diciendo: “¿A Carlomagno le hubiera preocupado esto? ¿George Washington, Adams, Hamilton, Jefferson, hubieran dejado que el estado de Nueva York negociara sus problemas fiscales con sus acreedores holandeses en forma independiente? ¿O hubieran considerado (como lo hicieron) el problema financiero de cada Estado como una cuestión de la Unión que querían llevar adelante y resolverlo conjuntamente?” Ciertamente, a Carlomagno no le hubiera quitado el sueño el problema fiscal de un feudo y, ciertamente, si se hubiera procedido por parte de los fundadores de la República norteamericana en la forma que hoy actúan los gobiernos europeos con respecto a la situación fiscal de cada uno de estos países nunca se hubiera llegado a formar el Estado de la Unión. Es más, a tal punto esto es así, que Estados Unidos en su momento tuvo que encarar diferencias de problemas fiscales internos, diferencias de productividad interna, con tensiones que eventualmente llevaron a una guerra civil, y que justamente, en la propia visión de conservar la Unión, se estuvo dispuesto a ir a una guerra para mantenerla. No quiero decir con esto que Europa termine en guerra; simplemente lo que quiero es marcar la diferencia de problemas que se tienen hoy en Europa con respecto a regiones del mundo que en su momento tuvieron un proyecto de Unión y tomaron las medidas que fuera necesario tomar para llevar adelante ese proyecto.

Las incógnitas que a uno se le plantean hacia el futuro son si Europa va a resolver esto como un problema de la Unión Europea, en cuyo caso: i) los ajustes fiscales tendrán que producirse en cada uno de estos países, y ii) sin ser tomados como consecuencia de una imposición externa sino como el compromiso que cada uno de estos países o estas regiones tiene con la Unión, o si, alternativamente, hay que pensar que la solución de este problema pone en juego la viabilidad del proyecto de Europa como Unión.

Mucho se ha hablado del efecto negativo que pueden tener en materia de crecimiento económico los ajustes fiscales en Europa. Yo creo que ha sido

tan mala la calidad del gasto público en Europa en los últimos 15-20 años que buena parte de los recortes fiscales que se están planteando son excesos fiscales que, en todo caso, su eliminación es promotora del crecimiento económico más que un shock negativo de demanda en el corto plazo. El tema fiscal esencial en Europa a largo plazo es la viabilidad de sus sistemas de pensiones y esto es un problema independiente, relacionado con la crisis actual pero que tiene que abordarse bajo cualquier escenario, independientemente de lo que se decida con el mantenimiento de la moneda.

Las consecuencias de las reformas o de la ausencia de éstas en los países europeos en los próximos años determinará no sólo la sostenibilidad de su deuda soberana sino también si hay un freno a posibles efectos de contagio, a nivel no solamente europeo sino también a nivel mundial. Pero lo que uno ve hoy por hoy es un discurso dual y un conjunto de medidas duales que apuntan a ambas cosas. Por un lado recordar a cada uno de los países que tienen un compromiso con la Unión Europea y por lo tanto deben llevar adelante ciertas medidas – y aquí es muy importante lo que señalaba Cosima, el tema es si democráticamente cada uno de estos países está dispuesto a hacerlo: si no está dispuesto a hacerlo que no se tome la molestia de pertenecer a la Unión, pero si quiere los beneficios de la Unión deben hacerlo. Porque en definitiva, si cada país miembro no está realmente dispuesto a tomar las medidas necesarias, entonces no vale la pena seguir insistiendo en mantener a ese país o esa región dentro de la zona del euro. O la alternativa – y algunas de las medidas que se han tomado en Europa también de alguna manera tienden un puente en ese sentido – es aceptar que eventualmente algunos de los países involucrados no puedan completar la sostenibilidad fiscal que requieren a mediano plazo, y que en ese caso los efectos hacia el resto sean lo más leves posible, en particular en lo que tiene que ver con el sistema financiero.

Quizás lo que uno debería pedir a las autoridades europeas en este trayecto es un poco más de claridad y convicción en lo que realmente quieren hacer. La preocupación sobre el evento de default en este contexto creo que está sobrestimada. Lo que se hizo respecto de Grecia – el anuncio respecto del deseo de que los bancos contribuyan en un rollover de sus débitos con una especie de Brady pequeño con distintas alternativas de bonos a mediano plazo y demás – si se hubiera iniciado por el gobierno de Grecia unilateralmente, presentándolo como un anuncio frente a sus acreedores, seguramente hubiera implicado que las calificadoras de riesgo inmediata-

mente pusieran a este país en selective default hasta que se completara el proceso de aprobación por parte de los bancos de su propuesta de reestructura. Como no lo hizo Grecia sino que lo hicieron las autoridades europeas, incluso como mecanismo de presión frente a los distintos bancos, esto se viste de “voluntariedad” y por lo tanto por ahora las calificadoras no han dicho nada, aunque lo que se hizo a ese respecto es exactamente lo mismo (aunque formalmente diferente debido a quien lo anuncia) que lo que hizo Uruguay en marzo del 2003 cuando inició su proceso de diálogo con sus acreedores. Entonces el selective default ya está planteado y el problema de esta falta de convicción es que se ha planteado un selective default que lo único que hace a largo plazo es mantener la expectativa de deuda de Grecia estable, si sale todo bien, en 150 por ciento del producto. O sea, hacer todo este esfuerzo para no resolver el problema de la deuda parece en todo caso un desperdicio.

La misma contradicción y dudas aparecen con los anuncios del Banco Central Europeo respecto de su compra de bonos soberanos en el mercado soberano. Más allá de todos los problemas estatutarios que pueda tener para hacerlo, el tema es que si se ha decidido que el Banco Central Europeo va salir a comprar deuda soberana en los mercados los recursos disponibles deberían concentrarse en comprar la que está sufriendo en el momento más ataques especulativos, como la de Italia, resultando incomprensible que salga (como salió) a comprar deuda de Portugal o de Irlanda cuando ya el problema de deuda de esos países estaba incorporado en los mercados y por lo tanto lo que hiciera el Banco Central a ese respecto era poco efectivo.

En fin, repitiendo lo que decía hasta este momento yo creo que en los próximos meses, más que en el próximo año, vamos a estar viendo cuál es el futuro de Europa, si sigue siendo una Unión o simplemente un conglomerado de países que funciona en forma más o menos en coordinada.