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"Letting the Euro Work at Full Speed",
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Domande specifiche

- Cosa si aspetterebbero i mercati internazionali dai leader europei per tornare a ridare piena fiducia all'Eurozona nel suo insieme?

- The main economic risk for the Euro is one of continuing asymmetries across countries. Asymmetries may even grow because:
  - Transmission mechanism is still crippled.
  - Continuing fiscal consolidation in countries that are already under strain. The correction of imbalances requires concerted action on the part of all the member countries that is not forthcoming.
  - Policies that successfully generate an inflation differential between Germany and consolidating countries ensure that the real burden of debt falls at a slower pace in consolidating countries.

  Aside from direct economic consequences, asymmetries **fuel nationalism and extremely high political risk due to public discontent.** This is the observation at the core of my reply to the question.

- Eurozone leaders should therefore rapidly address such discontent. **People who suffered from the crisis should feel that the Euro is for, not against, them. This would gain the trust of markets, by protecting cohesion with the Eurozone and ease continuing reform efforts**.

- Ideally, one would want a policy that (a) provides relief to the public (b) is politically viable (c) does not distort economic incentives (c) achieves this quickly, prior to the election. I will try and argue that such a policy exists, and I will call it a "**Euro loan to crisis-stricken families**".
  I will sketch its broad characteristics, but quant details – that are given by example – should be made precise following quant analysis.

1. Eurostat announces the third decile level of per-capita income in each Eurozone country.
2. Each Eurozone taxpayer checks whether his 2013 reported income, GROSS of welfare transfers, is below that level.
3. If it is, and if the taxpayer suffered from a fall in gross income of at least 40% since the 2007 tax filing, he is entitled to a "consumer loan" (at zero interest rate and 20years maturity) equal to half of his lost income for a pre-determined number of years.
4. The number of years can be anchored to the implementation of adjustment policies by the home country.

- Thus these loans:
  - target only people who were badly hit by the crisis, as these are the ones that suffer more according to the relative income hypothesis;
  - fuel Euro support by those who would otherwise be easy preys of nationalist rhetoric;

- are truly supra-national. They do not benefit only specific countries, as the income threshold is country specific. Thus it may be the case that the number of transfers is higher in Greece, but the total transfer is higher in Germany because of higher threshold income.

At the same time, these loans have desirable economic effects and features:

a. quickly spur local demand *in crisis area* within each country, helping the recovery of local firms and therefore of local lending;
b. they do not distort workers' and taxpayers' incentives as they
    i. are based on past information
    ii. reward those who filed tax reports
    iii. are not conditional on specific taxpayer's characteristics (not on the employment status; not between the self employed and the employees, or the retired and the young with precarious jobs)

- Can this policy be implemented quickly enough?
    - Yes, if it is implemented as an unconventional monetary policy, using the banking system to ensure ECB loans reach the target people.

- Rationale for ECB action with such "molecular" monetary policy:

a. loans help restore the transmission mechanism to the extent that crisis-hit banks recover together with crisis-hit firms following increased consumer demand.
    - This allows to quickly return to conventional policy.
b. loans help conventional monetary policies in case the economy begins overheating in areas which were not hit by the crisis.
    - It makes a rate increase more feasible in the face of relief for crisis-stricken areas.
c. loans do not lead to inflation the extent that for every euro transferred to families the ECB withdraws a euro from the secondary bond market
    - Size of the intervention can be calibrated so as to limit an interest rate hike in the face of sterilization (i.e. income threshold level and % coverage of income shortfall must be set based on estimated size of ECB intervention)
d. consistent with ECB Statute (wide possibilities offered under Article 20; loans can be targeted to durable consumer goods that will constitute the collateral, if strictly essential)

-Malgrado tutte le decisioni/riforme della governance economica europea degli ultimi anni, quanto è concreto il rischio che la speculazione internazionale faccia nuovamente esplodere la crisi del debito nell'Eurozona e quali sarebbero le specifiche conseguenze per l'Italia?

The risk of international speculation is now further away than ever since 2011.
On the one hand markets do remember Governor Draghi's words back in July 2012. On the other hand the prospects of growth (albeit too mild) are helping. They will be helping in the future to the extent that also weaker countries manage to anchor it.

Yet the risk is still there. This is why I urge a quick reaction, such as a "**Euro loan to crisis-stricken families**". In other words, international speculation will keep quiet only if European leaders give a pro-Euro, strong signal to the Euro-zone citizen prior to the elections**.**