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The EMU Sovereign Debt Crisis: Time for a Bold New Initiative!

A complementary approach to the Bruegel Institute proposal

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In the face of increasing tensions in financial markets, it has become urgent to reinforce the crisis resolution mechanisms to deal with potential default/restructurings of the sovereign debt of EU Member States. Paul GOLDSCHMIDT, member of the Advisory Board of the Thomas More institute, reacts to the recent analysis of the Bruegel Institute and makes a series of bold proposals calling for greater flexibility in the EMU accession criteria, a revision of ECB mandate and governance, a single representation of the EU at the International Monetary Fund and the integration of the recently created European Financial Stability Fund into the European Investment Bank Group.

A stimulating contribution to a debate that Europe can no longer afford to ignore...

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The proposal concerning "A European Sovereign Debt Crisis Resolution Mechanism" (E.C.R.M.) recently released by the Bruegel Institute (available on http://www.bruegel.org) constitutes an important contribution to the debate concerning the implementation of the latest European Council's decisions on this crucial subject. It can also be useful to EU President Van Rompuy in drafting, over the next two months, the "technical" amendments to the Treaty that would be required.

It is understandable that the authorities wish to move fast so as to achieve a smooth transition by June 30th 2013 when the present EFSF mandate expires. This objective induces, however, in turn a constraint that limits the scope of Treaty changes, in order to accelerate its ratification and avoid reopening broader Treaty adjustments that some Member States might wish to introduce.

At this stage, it seems highly unlikely that a permanent and credible Sovereign Debt Crisis Mechanism can be based on minor adjustments to the Treaty and the existing EFSF mechanism in order to meet principally, according to press reports, very specific German constitutional requirements.

Indeed, while the Greek Facility and setting up of the EFSF last May provided a short lived respite to turmoil in sovereign debt markets of several peripheral Eurozone Member States, recent developments indicate renewed severe unrest evidenced by widening in primary and secondary market (as well as CDS) spreads.

This is happening against the background of additional significant progress at EU level by the adoption of the new regulatory/supervisory framework for financial markets set to come into force early 2011, as well as adoption of proposals strengthening the Stability and Growth Pact. At Member State level, implementation of painful and courageous measures to restore equilibrium in government finances is also being actively pursued.

Before proposing solutions, it would seem appropriate to answer the question why, in the face of developments that should normally be "reassuring", markets are behaving in this manner? Four main reasons can be identified:

- ✓ Despite signs of a weak economic recovery, it is far from apparent that the financial crisis is over. There is a growing fear that the indispensable budgetary adjustments are not having the intended impact on the reduction of deficits and/or on sovereign debt issuance requirements.
- ✓ The acknowledgement that a "sovereign debt default/restructuring" within the Eurozone becomes a formal possibility, as a direct result of setting up an E.C.R.M., induces investors to review their risk appetite. The unavoidable uncertainties concerning the final details of the mechanism have a negative impact on spreads of weaker sovereign issuers.
- ✓ The uncertainties created by the impact of a default which may lead to an immediate revision of ECB policies regarding acceptable collateral and the simultaneous consequences for the new regulatory/supervisory banking framework (EU and Basel III) which could entail a significant further increase in bank capital requirements (or a reduction in their lending capacity), all of which impinge negatively on a future economic recovery.
- ✓ The fact that the current EFSF mechanism would be severely tested if it were activated as it would reveal imbedded structural flaws that have not been properly addressed. For example bonds issued by the EFSF would not be fungible because, as additional EMU Members request its support, the nature of the "several" guarantee is modified with important consequences on the liquidity (and therefore issuance costs) of each new market operation. There is a high risk of creating market confusion as well as inducing adverse effects of the perception of the securities issued by other Community bodies, in particular the EIB.

In light of this situation it is reasonable to question the approach to further reform proposed by the Commission that was put forward very clearly by Marco Buti, Director General of ECFIN, in a recent editorial ("Reconstructing the European House" - European Economy, Oct. 2010): "We are shoring up the existing foundation rather than pouring concrete for a completely new one however. None of the proposed reforms will require changes to the Treaties".

This stance was only slightly modified by the European Council's acknowledgement that some "technical" adjustments to the Treaties were in order.

Though some of the proposals contained in the Bruegel paper would probably need more significant Treaty changes than envisaged by the Council, it suffers partially from the same a priori limitations as those that presided in their time over the drafting of the Lamfalussy (2002) and de Larosière (2009) Reports. Both submitted to a self imposed discipline to restrict proposals to those that could be endorsed unanimously (implying agreeing on the lowest common denominator) as well as to what the panellists considered "pragmatic" in terms of acceptability by Member States.

Though in each case the earlier Reports contributed significantly to improving the existing framework, the first, quite obviously, did not prevent the financial crisis and the second is already revealing gaps, in particular in ignoring the risks associated with bank sovereign debt holdings in the mandate of the European Systemic Risk Council; it also fails to address - head on - the inherent contradictions between a nationally based regulatory/supervisory framework and – as far as the Eurozone is concerned – a pooled monetary sovereignty. In both cases, the undisputable competence and reputation of the panellists and their respective Chairmen, gave the political authorities an unassailable alibi for limiting reforms, despite a worthy - and only partially successful - effort of the European Parliament to strengthen the "supra-national" content of the most recent regulatory reform package.

In light of this previous experience, which in financial parlance can be expressed as remaining perpetually "behind the curve", it would be appropriate to consider whether the incomplete foundations of EMU, recognised by Bruegel and implicit in the European Council's decisions can indeed be "shored up" or whether some more fundamental structural changes in design are required.

Analysis of the problem

In a globalised world, it is difficult to find a "hiding place". If there is a broad consensus for the need of a strong and fair regulatory framework to monitor and police financial markets, the latter perform, nevertheless, a very useful function of revealing vulnerable areas in the global economic environment.

Thus we have seen the focus of what has often been termed "speculative movements" shift from one market area to another in which "externalities", induced by the performance of the underlying assets used as vehicles, can have significant undesirable consequences. For instance, a shift in or out of commodities has a significant impact on the US dollar, the currency in which most of these materials (and their derivatives) are quoted, not to mention the direct physical consequences on poorer agricultural populations or countries heavily dependent on the export of raw materials. Another current example is the impact of the Federal Reserve's Quantitative Easing program on currencies which was at the centre of the G20 discussions in Seoul. Similarly the attractiveness/disenchantment affecting equity/bond markets give rise to capital flows affecting

currency values but similarly the attractiveness/disenchantment of/with a currency can produce important effects on underlying asset markets. This is demonstrated clearly in the recent attraction of US equity markets (based on improved corporate earnings) while simultaneously the attraction of the Yen as a currency induced Japanese bond purchases despite quasi nil returns.

The purpose of this digression is to emphasise that the question of dealing with the resolution of a sovereign debt crisis within the EU/Eurozone is intimately linked to the level of the Euro, as it serves as transmission mechanism in the purchase/sale of sovereign bonds. This is further evidenced by the recurring fear of EMU breakup that surfaces each time the possibility of the default/restructuring of the sovereign debt of an EMU member is evoked.

Let us examine successively a number of specific problems that result from the existence of the EU and of the Eurozone respectively (some of which are admirably described in the Bruegel Paper).

A initial question concerns the scope of any proposed resolution mechanism: is it aimed at the 27 Member States or only at EMU members? The answer to this fundamental question will have a very serious impact on the negotiation and ratification of any Treaty change.

The first obvious remark is that there is an important difference in the structure of the debt of EMU members and other EU MS's. The former have practically all their debt denominated in € but held by investors spread over many sovereign states (EU or foreign) while the latter have part of their debt in their domestic currency (largely owned by local investors) and a more or less significant part denominated in "foreign" currencies mainly € but also US Dollars, Japanese Yen or Swiss Francs.

This has important consequences in terms of dealing with a potential default/restructuring process and it is far from obvious that a single resolution mechanism is best adapted to deal with these differences. Indeed, as well detailed by Bruegel, a country that has retained monetary sovereignty has access, within its policy options to restore solvency, to the "inflation/devaluation tool" but also to an independent "interest rate" setting mechanism, both possibilities which are denied individual EMU members. This additional flexibility available only to non EMU participants means that it is quasi impossible to set uniform EU wide standards applying to a single debt restructuring mechanism.

A second consequence of this difference in structure is that bondholders will evaluate the sovereign debt risk with different parameters: it is unlikely for instance that the UK would default either on its Sterling denominated debt, as it has access to the printing press, or on its limited foreign currency denominated debt as the negative consequences would far outweigh any conceivable benefit. A similar reasoning applies to countries that have all - or the majority - of their debt expressed in domestic currency and in particular to the United States. The low(er) risk of default - even associated with a devaluation risk - will undeniably reduce the risk premium demanded by the market, especially because the devaluation risk can be easily "covered" at a price by a forward exchange contract. One should not, however, overlook the counterparty risks inherent to the related FX forward contracts as these transactions do not settle under the aegis of a regulated Clearing establishment.

Having considered some of the advantages retained by non EMU members within the specific field of dealing with "sovereign default", let us turn to the situation of EMU Members.

EMU was negotiated in the direct aftermath of a period of high inflation (1970-90) which significantly affected the views of its designers and resulted in putting the greatest emphasis on ways to control inflationary expectations. Thus the Stability and Growth Pact aimed at limiting budget deficits (3% of GNP) and bringing debt levels within acceptable levels (60% of GNP). The parallel mandate of the ECB was to keep inflation at or slightly below 2% over the medium term.

Though the ECB has acquitted itself brilliantly of its mandate during the first 11 years of its existence, the SGP has had to be amended in order to allow for somewhat greater flexibility

(2005) and to impose stricter discipline (2010). The new framework (semester, sanctions etc.) is all the more necessary that the pooling of monetary sovereignty, and delegation of monetary policy to the ECB, meant that the greatest part of structural and cyclical adjustments fell on the budgetary/fiscal policies over which individual members retained full control. This became even more apparent, once the ECB could not lower interest rates any further and that the increased spreads demanded by the market from the weaker EMU sovereigns outweighed significantly the benefits derived from low nominal official and benchmark rates.

With the onset of the financial and economic crisis, number of weaknesses appeared in the system: bank rescues and economic stimulus programs caused budget deficits and government indebtedness to soar. In the initial stages the ECB was able to counteract some of the consequences by rapidly reducing interest rates and providing unlimited liquidity to the banking sector but, as time passes, the rigidities of the system are showing their limits, building up market tensions.

The interest rate tool, controlled by the ECB, is no longer available to the downside. Overt quantitative easing has a very limited scope within EMU and this will only be reinforced by the consideration of an E.C.R.M. The possibility for the ECB to provide liquidity to the market by the direct purchase of EMU Member State debt, on any significant scale, is severely constrained because of the newly perceived associated risks and the absence of any "Community" backed instrument (comparable to the US Treasury securities).

On the other hand, one must question for how long the ECB will be able to continue to provide the necessary "unlimited" access to liquidity to the banking system. This uncertainty may affect significantly peripheral EMU members, if the collateral value of their sovereign securities becomes questionable. One must therefore conclude that, by becoming the main source of liquidity for banks that are, in some cases, already totally excluded from the interbank market, the ECB is in fact "purchasing" indirectly the underlying Government securities and assuming a considerable financial risk.

One can then readily understand why, in addition to normal courtesies prevailing in the rarefied Central Banking world, President Trichet is loath to criticise the Federal Reserve's policy since the ECB is doing virtually the same thing by refinancing the purchase of potentially far riskier EMU Government securities by the banking sector. The reassurance of the market that followed the publication last summer of the "stress tests" may well prove temporary if a fundamental reassessment of the treatment of Government securities held within the banking system becomes unavoidable.

Such a situation clearly enhances the likelihood that any default/restructuring of an EMU Member's debt would entail a banking crisis in the same country and could well spread to other EMU banking institutions that would hold significant amounts of the defaulting Member's securities creating, in turn, a systemic risk for the entire financial system.

It also underlines the creation of an unhealthy quasi incestuous relationship between the banking sector and the (re)financing of public sector debt. While the Bruegel study expects banks to reduce their exposure to Government debt as a result of higher risks and inevitable related capital charges, such a development will obviously increase the cost of bank lending and of government borrowing, exerting further pressure on public finances and as well as a restraining influence on economic recovery.

The Bruegel Paper also postulates that the default of a small sized EMU Member would be manageable without seriously affecting the stability of the market in general and of the Euro, as a currency, in particular. I strongly question this conclusion for two reasons: firstly, any default is likely to generate a "contagion" effect increasing market volatility and the probability of further restructurings; secondly, it is foolhardy to go to the great lengths of setting up a complex

resolution mechanism that would not be capable of dealing effectively with the default of a medium sized or large EMU Member State.

Let us now examine why such a dangerous situation is more likely to develop within the Eurozone than in countries retaining full monetary sovereignty. The Bruegel analysis draws an interesting comparison between the position of EMU members and that of the Federated States in Germany and the United States. It fails however to draw the appropriate conclusion which is that – within well defined limits – there are, in the latter cases, recourse opportunities to the Federal Government. This mitigates considerably the likelihood of a State default, particularly if it would entail systemic consequences at countrywide level. No such recourse possibility exists within the EU, outside of a €60billion "financial assistance" budget line and the untested €440 billion EFSF, the inadequacy of which is demonstrated by the urgency to design an appropriate permanent solution as mandated by the European Council.

It should be pointed out, however, that the reference to Germany is only partially relevant and is based on the current relative "healthy" state of the country which begs the question of its capacity, as an EMU member, to deal with a crisis if its own finances were put into jeopardy.

The absence of a Eurozone potential "lender of last resort" benefitting from a joint and several guarantee of its Members or having by construction access to a credible amount of "own resources", puts EMU members at a significant disadvantage compared with other Sovereign issuers. Designing such an entity seems out of reach if it is denied any direct or indirect access to the inflation/devaluation tools available to other Sovereigns. It leaves the debt of individual EMU members fully exposed to market "attacks", whether justified or not. Instating severe protectionist capital "controls", in clear violation of the EU Treaty and of international agreements, is not an available alternative so that additional domestic restrictive budgetary measures would be the only escape. Such a desperate deflationary scenario with its social consequences would quickly become intolerable.

There is, in addition, another significant collateral drawback to this situation which is becoming particularly apparent as tensions increase across foreign exchange markets: unlike its major competitors in world markets, the Eurozone has remained so far a purely "passive" actor in this field enduring both the negative fallout of a "weak euro" when the survival of EMU is being questioned (fuelled by fears of the sovereign debt crisis) as well as the negative fallout of a "strong euro" as its competitive position is being eroded in vital export markets.

This situation is likely to continue to prevail unless the ECB decides to accumulate, for instance, large dollar balances to "manage" the USD/€ exchange rate to the EU's perceived advantage (as China is doing). Such a shift in policy would undoubtedly, especially in the present circumstances, fuel further controversy and risk rekindling protectionist measures – including competitive devaluations – that plagued the 1930's and led to the depression. The difficult discussions at the Seoul G20 summit are ample evidence of the reality of these risks.

Before turning to the description of an alternative proposal to Breugel's, let me say that the tiered structure formalising the separation of legal, economic and financial responsibilities included in the Report is appealing and I draw on it extensively in section 4 hereinafter.

Alternative proposal

Like the great majority, I fully share the concerns about the political difficulties of engineering further Treaty changes, so soon after the painful ratification of the Lisbon Treaty. That is why the radical proposal hereunder is based on the acceleration of the implementation of the existing Treaty, limiting the need for amendments.

The starting point is the Treaty commitment of all Member States (with the exception of the UK and Denmark) to converge their economies so as to join as soon as possible EMU. Up until now, the fulfilling of the formal convergence criteria has been the touch stone by which accession to EMU has been authorised.

I believe that the current financial and economic crisis fully justifies a fundamental reconsideration of the accession criteria, not so much because they have suddenly become inappropriate, but because there are significant advantages to be derived in amending the procedure aiming at the acceleration of the enlargement of EMU to at least 26 out of the 27 EU Member States (the UK might then follow suit to complete the process; see below).

The arguments in favour of such reconsideration are many:

- ✓ As a result of the crisis, few of the existing EMU members are currently meeting these criteria so it seems rather unfair to impose them on candidate countries. It seems reasonable to allow postulants to complete their initial convergence process in parallel with the restoration of budgetary discipline by existing EMU members. Monitoring such efforts would be rendered all the more effective that, upon joining, accession countries would be immediately subject to the new SGP procedures. It would foster closer coordination of economic policies which, coincidentally, is a top priority of both the EU and the G20.
- ✓ The economic weight of new entrants is relatively small and should not create shocks of the same magnitude as resulted either from the German reunification or the current crisis. They appear therefore "manageable".
- ✓ The extension of the Eurozone will increase efficiencies of the internal market and reduce further its degree of reliance on "international trade". The EU economy will be even less dependent than heretofore on the external value of the Euro, offering the EU the possibility of considering this parameter with the same "benign neglect" as the Americans do.
- ✓ The increase in overall market size of the Eurozone will strengthen the EU's hand considerably in negotiations with major trading partners. It will enhance the possibilities of invoicing a greater share of imports/exports in Euros, reducing both transaction costs and exchange risks, thus improving the EU's overall competitive position.
- ✓ The likelihood of the Euro becoming an alternative to the US dollar as a "reserve currency" will be enhanced offering both privileges and corresponding obligations that come with such status.
- ✓ Should the market reaction induce a downward reassessment of the relative value of the Euro versus the dollar (it might conceivably do the opposite), this would appear rather an advantage in the current situation where the Euro is currently the "adjustment variable" in FX markets. Such a repositioning could not be qualified as a "competitive devaluation" condemned by G20 Members.

But the main advantage to be derived from such reconsideration is to provide constructive answers to the challenges that have been described in the previous section. The most important objective

would be to put the Eurozone on a fully equal footing with other major currency areas in terms of the exercise of relevant sovereign powers. Authorities should have the similar freedoms and be subject to the same rules as might be decided by the G20, (if they are able to reach an agreement), but under no circumstance should the Eurozone find itself hamstrung by its self imposed internal framework, so that it remains at a permanent disadvantage vis à vis its main international partners.

To that effect, the ECB's mandate should be revised: more flexibility should be introduced in its inflation target so as to avoid excessive reliance on budgetary restraint and/or fiscal measures as the principal adjustment factors, especially when, due to external shocks (such as the financial crisis), the self imposed rigidities increase considerably the risks of undesirable outcomes such as deflation and or depression.

The ECB should also be charged with a more active management of the EU's foreign exchange reserves as an additional tool available to deliver on its newly defined mandate. Unless such additional flexibility is introduced, it will be difficult to correct over the medium term the imbalances due to the excessive indebtedness that built up prior to the crisis. Indeed, in addition to budgetary discipline, that appears to have been firmly embraced by EMU members and non-members alike, involving great political courage, it is hard to believe that a new sustainable equilibrium between asset values and indebtedness can be re-established without at least a measure of inflation to reduce the value of the excess liabilities (leverage) incurred.

With the extension of EMU, it is also suggested to revise the governance of the ECB to ensure greater efficiency: taking a leaf out of the structure of the US Federal Reserve System, we propose that, instead of having an unwieldy Governing Council composed of 26/27 Governors plus the ECB 6 Executives, Regional ECB's be created sending each a representatives to the Governing Council. Large EMU members would retain their individual seats though Portugal would be twinned with Spain and Ireland with the UK. In addition five multinational Regions would be created covering the Benelux, Denmark/Sweden and Finland, Austria/Hungary/Slovenia/Czech and Slovak Republics, Greece/ Malta/ Cyprus/Bulgaria and Rumania, Poland and the Baltic States.

This structural reform would also allow "regional" expertise to be better taken into account in carrying out the ECB's mandate giving smaller EMU Members a larger say in promoting their local interests and a better chance of influencing overall monetary policy. It could also be an important factor in drawing the UK into the system because we suggest delegating to the Bank of England the management of the EMU/EU's foreign exchange reserves on the model of the New York Fed; after all, the UK is the only EU Member who has had any experience in managing a reserve currency. Such a choice would also comfort the City of London as the undisputed "financial centre" of the Eurozone which it would very likely lose if it chose to remain outside of a Eurozone comprising the 26 other MS (If you cannot beat them, you might as well join them!).

It is also suggested that this reform be used as the opportunity for settling once and for all the representation of the Euro towards the outside world. The IMF quotas/voting rights should be pooled. Individual MS membership should be terminated in favour of the EU so that representation at the IMF would parallel that of the United States. This would considerably strengthen the EU's bargaining power making it a far less "soft target" in renegotiating IMF governance, weakness that was cruelly demonstrated in the recent agreement where a divided "Europe" gave up two Board seats in favour of emerging nations.

An additional bonus would be the possibility of reinforcing the financial regulatory/supervisory framework by consolidating the EU wide powers of the three new overarching Regulatory Agencies. A decentralised structure, comparable to the European System of Central Banks, would correct some of the remaining structural weaknesses of the recently adopted framework by facilitating adjudication in case of conflicts of interest and strengthening the powers of enforcement.

The extension of EMU to the entire EU is therefore a key prerequisite for addressing constructively the problem of establishing a credible and acceptable mechanism for dealing with the resolution of debt crisis affecting individual EMU participants. It also strongly reduces the likelihood of the mechanism being activated as demonstrated by the examples of the United States and Germany when dealing with the financial difficulties at State level.

Not facing this reality is the surest path to a breakup of EMU with the enormous economic, social and political costs, including the possibility of violence and/or conflict that such an event would entail.

How the E.C.R.M. would work

Based on the foregoing, one can keep large portions of the Bruegel proposal intact: the 4 principles detailed on page 21/22 of the Report should remain unchanged as well as the proposal involving 3 separate intervention bodies: "A legal one in charge of adjudication, an economic one to provide the necessary economic expertise and judgement, and a financial one dealing with financial assistance"(p.22).

The designation of a special Chamber of the European Court of Justice as the legal body is appropriate and would seem preferable to a newly created independent body for the following reasons:

- ✓ The Chamber would benefit from the aura and existing expertise of the ECJ which would give it from the start the necessary authority without having to establish independently its reputation.
- ✓ It would shorten intergovernmental negotiations and accelerate considerably implementation.
- ✓ It would reduce considerably the running costs as the administration of the Chamber would be done by the existing services of the ECJ.

The recommendation relying on the Commission to provide the necessary economic expertise and judgement in the process is also correct. Though associating the ECB brings a valuable expertise to bear, it would seem that, for efficiency and transparency reasons, the prime responsibility should be attributed to the Commission. Since it is within this body that "conditionality" of financial assistance will be determined, the EIB should also be involved as further detailed below.

Finally, we suggest that the EFSF, as financial arm, be established as a "special purpose subsidiary of the EIB". There are several arguments that militate for such a choice:

- ✓ The legal structure of the EIB has proved totally adapted to raising significant sums on both domestic and international capital markets. In particular its "guarantee structure" has warranted throughout the indispensable "AAA" rating which should be carried over to EFSF issues on an identical footing.
- ✓ The EIB will be able, if necessary to maintain its AAA rating, to negotiate with the European Council an EU "budget guarantee" on its EFSF loans in a similar fashion as the EU budget covers the risk of EIB loans to developing countries. This should avoid many of the difficulties that surfaced in setting up the current EFSF and that continue to overhang the reception its securities might receive should the facility ever be activated.

- ✓ The EIB is best suited to ensure adequate coordination between its vital standard "banking" issuance program and EFSF issuance so as to avoid negative interferences, particularly in the secondary market where the EFSF should immediately benefit from EIB's market acceptance.
- ✓ Though the EFSF should not have "privileged lender status", its borrowers will have a very strong incentive to honour their commitments as failure to do so would put them in jeopardy for obtaining further normal EIB financing.
- ✓ The EIB disposes of the necessary in house expertise and administrative structure which should reduce significantly operating costs of the EFSF. In addition replacing the current "technical support" generously offered by the German Government's own issuing department by that of the EIB is more in line with the EU character of the proposed E.C.R.M.

The EFSF should also act as the main Community vehicle for providing direct financial assistance to Member States independently of a formal request for "restructuring". In this case the recently established €60 billion budgetary line for financial assistance to EMU Members (as well as the old "balance of payments assistance line for non EMU members) could be dispensed with, limiting the number of financial instruments based on EU credit backing and offering greater clarity to the market.

Conclusion

The additional preconditions for the creation of an E.C.R.M. outlined here above are an essential and integral part of this proposal which are believed to be necessary to underpin the credibility of the basic structure proposed by the Bruegel Report. Given this important proviso, I fully endorse the Report's own conclusions that I have taken the liberty of reproducing verbatim hereunder.

"Difficulties currently abound and must be addressed head-on in order to avoid potentially damaging ambiguities and perverse incentives. For this reason, European governments should not let the understandable reluctance to revise the European Treaty stand in the way of the urgent need to build a sound institutional framework for the euro. We find it especially important to distinguish between the different legal, economic, and financial assistance roles involved in any crisis resolution and to invest these roles with the proper responsibility […]. In creating such a mechanism, Europe is taking the lead where the international community failed to find agreement a decade ago. There are good reasons to think it has a fair chance to succeed, and we do not share the view of those who claim that no European solution can be found in the absence of a global solution. By the same token, however, we certainly consider that there would be significant benefits in the definition of a global response to the sovereign crisis-resolution issue, and we hope that Europe's decision to create a regional mechanism will help advance the global discussion."

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