



**Re-Define Press Release – Sarkozy Merkel summit and the Eurocrisis
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Please find below **Re-Define's** Comments on the Sarkozy-Merkel summit, the Eurocrisis, FTTs, Spain/Greece/Italy, the ECB and EU banks. All comments are attributable to **Sony Kapoor**, Managing Director of Re-Define an Economic Think Tank.

On Growth

“The belated concern about youth unemployment is welcome but does little for the macro level pan-EU growth that is so urgently required to tackle excessive indebtedness.”

“EU leaders have to understand that mere lip-service to growth will not induce growth in the Eurozone”

“Van Rompuy’s stated principle to protect growth-generating spending, especially investments, should be strictly enforced if we are to increase the long-term growth potential of the EU.”

“Many of the more troubled economies are at serious risk of their debt snowballing out of control under excessive austerity “

“The EU needs to immediately target tax evasion & avoidance and double the callable capital of the European Investment Bank so it can slow the pace of austerity.”

“Additional fiscal spending by Eurozone countries that can afford it and a redistributive fiscal policy that delivers a greater share of benefits to the lowest income segment will both help stimulate growth.”

Fiscal Union and Fiscal Compact

“Just calling something a fiscal union does not make it one. A structure without risk sharing and a mechanism for fiscal transfers is not a fiscal union.”

“At this point it has become almost necessary for EU leaders to map out a credible time table for Eurobonds if they are to have any hope of stemming the crisis.”

“In their more honest moments, EU leaders would freely acknowledge that the whole concept of the fiscal compact is rather marginal to the current crisis. While it makes little economic sense, it is probably politically necessary to ensure German support.”

“The March deadline for getting a sign-off on the fiscal compact seems ambitious given the number of things that could potentially delay the process.” “In any case, the compact is rather marginal in to tackling the Eurocrisis.”

EFSF and ESM

“Bringing the ESM forward by a year is only marginally useful for tackling the Eurocrisis.”

“EFSF funds should be used to provide pan-EU support to the banking sector and the ECB should work to limit the yields on Spanish & Italian sovereign bonds directly. That is a far more efficient way to tackle the Eurocrisis than the current approach.”

Spain / Italy / Greece

“Excessively sharp austerity measures in Spain may be worse than ineffective. The combined negative impact of a lower GDP, worse tax revenues and falling asset prices on indebtedness may exceed the targeted reduction in deficits.”

“EU leaders urgently need to co-ordinate efforts to crack down on tax evasion and tax avoidance to increase their effectiveness.” “The additional tax revenue from these measures would help soften the blow to growth from austerity measures.”

“Since Greece will only get one shot at debt reduction, it is only right that the EU pushes for as high a bondholder haircut as possible given the unsustainability of Greek debt.”

“If anything, a larger haircut may enable Greece to return to the markets sooner rather than later.”

“What Italy needs more than anything else is to tackle tax evasion and focus on restoring growth.”

EU banking sector

“Unless all doubts about the solvency of Italy and Spain are put to rest first, no amount of support would restore confidence in the European banking system.”

“The longer the ECB provides lifelines to Eurozone banks, the harder it would be for them to exit from this dependence on public support.”

“EU leaders should extract more concessions from the European banking system in exchange for the unprecedented amount of public support being provided to them.”

ECB

“The ECB’s unlimited support for the banking sector without providing additional support to troubled sovereigns is a hugely inefficient way of tackling the Euro crisis and it is far from guaranteed that it will work.”

“While ECB support for the Eurozone banking sector is has saved it from near certain collapse, it is not an effective or efficient way of ending the Eurocrisis.”

FTTs

“There is no reason why France, Germany or the whole of the Eurozone could not implement a financial transaction tax by themselves provided it is modelled on the successful Stamp Duty on share trading that mobilizes more than Euro 5 billion of revenue for the UK every year.”

“The FTT is one of the good answers to the question of how best to mobilize much-needed additional tax revenue in the EU in a manner that has the least negative impact on growth.”

Please also find Sony's most recent interview on the Eurocrisis on Bloomberg TV from this morning <http://www.youtube.com/watch?v=jmo2tfuagY8>

Please email Media@re-define.org for further Comments and Analysis or call [+32 489128094](tel:+32489128094)

Media Adviser, **Re-Define**

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