‘The Eurozone is in TATTERS’ Top US economist says whole system is broken

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Joseph Stiglitz, the former chief economist of the World Bank, said the eurozone had utterly failed to “enhance solidarity and advance the goal of European integration”, in a damning indictment for the single currency just a day before the European Central Bank debates how and when it can end its quantitative easing policy designed to pull the eurozone economy out of recession.

Mario Draghi, President of the European Central Bank is in Riga today to announce his decision on whether or not the eurozone has recovered sufficiently from its 2009 sovereign debt crisis to end the practice of quantitative easing (QE), or ‘money printing’ stimulus.

The move to withdraw QE - the buying of government bonds by the central bank to increase the flow of money and boost short-term growth - will be seen as a sign that the eurozone is finally ready to move on from the debt crisis that shocked the continent, bringing Greece, Italy, Portugal and Ireland to the brink of collapse.

However, Mr Stiglitz Nobel laureate, and one time chairman of the US President's Council of Economic Advisers claimed Germany’s ongoing rule and Italy’s growing anger could yet leave the eurozone “in tatters”.

Writing in the Guardian, the US economist attacked the single currency’s fundamentals, arguing “if one country does poorly, blame the country; if many countries are doing poorly, blame the system”.

He writes: “The euro was supposed to bring shared prosperity, which would enhance solidarity and advance the goal of European integration. In fact, it has done just the opposite, slowing growth and sowing discord.”

According to Professor Stiglitz, the eurozone has massively underperformed even compared to relatively unremarkable growth in the US. In 2000 - one year into the euro’s life - the US economy was 13 percent larger than the eurozone, and by 2016 the difference had swelled to a massive 26 percent.

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Despite good growth figures of 2.4 percent in 2017 the economist says that there has been no reversal of the the damage done by “a decade of malaise”, claiming that events in Italy prove that the eurozone economy is once again faltering after months of poor economic data and the first eurosceptic government elected in Italy.

In March’s Italian elections, which have only now produced a government, populist parties Lega and Five Star Movement formed a coalition, winning votes with a vow to stop EU-imposed austerity to prevent another bailout.

The backlash in Italy is another “predictable episode in the long saga of a poorly designed currency arrangement”, Professor Stiglitz said, adding the system’s dominant power, Germany, impedes the necessary reforms and insists on policies that exacerbate the inherent problems.

He said: “The central problem in a currency area is how to correct exchange-rate misalignments like the one now affecting Italy.

“Germany’s answer is to put the burden on the weak countries already suffering from high unemployment and low growth rates. We know where this leads: more pain, more suffering, more unemployment, and even slower growth. Even if growth eventually recovers, GDP never reaches the level it would have attained had a more sensible strategy been pursued.”

Sounding a warning across the eurozone, the US economist says that Italy could be the first to leave the single currency with, what he describes as “anti-euro sentiment” coming from both the left and the right.

He said: “Matteo Salvini, the party’s leader and an experienced politician, might actually carry out the kinds of threats that neophytes elsewhere were afraid to implement. Italy is large enough, with enough good and creative economists, to manage a de facto departure – establishing in effect a flexible dual currency that could help restore prosperity.”

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The professor claims it’s not too late for the eurozone claiming that if Germany can save the euro by “showing more humanity and more flexibility”.

However he adds: “Having watched the first acts of this play so many times, I am not counting on them to change the plot.”

The ECB will announce their decision on interest rates and QE today.