

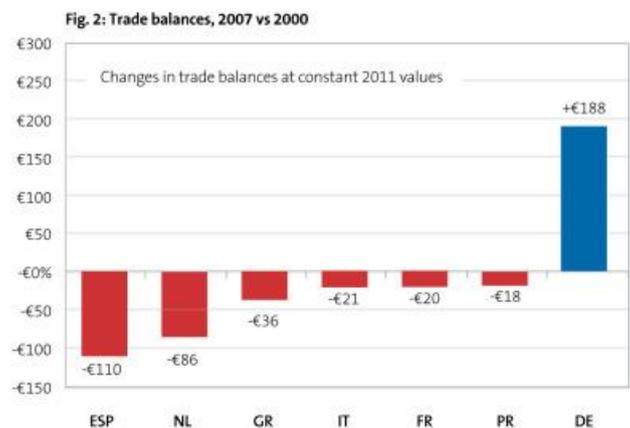
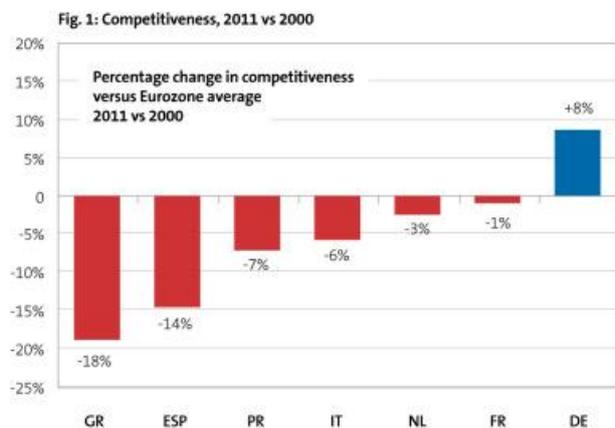
Tullett Prebon Research, a blog by Dr Tim Morgan

## Here be monsters – the anatomy of the Eurozone debt disaster

by Tim Morgan on June 12, 2012

Back in the Middle Ages, map-makers used to write “here be monsters” to warn sailors away from uncharted seas. In my latest report, [The anatomy of the Eurozone debt disaster](#) released today, I argue that perhaps it’s time European leaders were given the same warning about the consequences of a failure to resolve the on-going crises in the Eurozone.

For too long there has been a tendency to put all the blame for the crises on countries such as Spain and Greece. This pre-occupation has led to many of the structural faults in the single currency being overlooked leaving many countries with no solution to widening gaps in their economic competitiveness.



Despite the clamouring of Pro-Euro commentators the truth is that the single currency has been fatally flawed since its inception. Quite apart from denying weak economies the option of devaluation, the combination of a single currency with a multiplicity of budget processes breaks the necessary alignment of monetary and fiscal policies, and also excludes the inter-regional ‘automatic stabilisers’ which operate in ‘normal’ single currency areas. The euro has distorted competitiveness, imposed inappropriate “one-size-fits-all” interest rates on diverse economies, and incentivised fiscal irresponsibility

These flaws made both state and bank debt crises inevitable. Since some member countries have been victims of the weaknesses in the single currency, the issues now should be crisis-aversion and structural reform.

Just as countries such as Greece and Spain have suffered from the design faults in the euro system, others (most notably Germany) have benefited. The dichotomy of such differing fortune raises the difficult moral and practical question of how best to find a way out of the current chaos in which we find ourselves. One can certainly make a case for offering Greece more generous bail-out terms and with the Spanish debt crisis almost certainly a pan Eurozone issue perhaps it is time to look more closely at the structural reforms so desperately needed than waste crucial months pointing an unjust finger at the Euro’s scapegoats.