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A hopeless Europe, unable to cope

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Usually I stay clear of connotation-rich German words that have no real equivalent in other languages. Their purpose is to obfuscate. But there is one that describes the eurozone's crisis management rather well. It is *überfordert*. The nearest English translation is "overwhelmed", or "not on top of something", but those are not quite the same. You can be overwhelmed one day, and on top the next. *Überfordert* is as hopeless as Dante's hell. It has an intellectual and an emotional component. If you are it today, you are it tomorrow

am not saying that every policymaker in the eurozone is hopeless. There are a few exceptions. My point is that the system is *überfordert*, unable to cope. This inability has several dimensions. I have identified six.

The first, and most important, is a tendency to repeat the same mistakes. The biggest of these is the repeated attempt to address solvency problems through liquidity policies. It happened in October 2008 with bank guarantees. The European Central Bank's never-ending liquidity support is another example. So is the Greek bail-out. And so is the European Financial Stability Facility, the €440bn ($588bn) bail-out fund. Set up in May as a mechanism to resolve financial crises, it became a cause of the Irish crisis in November. What triggered last week's panic was the sudden realisation by investors that, with an interest rate of 6 per cent and an ongoing no-default guarantee to bank bondholders, Ireland is insolvent.

The second is a lack of political co-ordination. All the decisions taken have one thing in common: no one takes political ownership of the whole system. Everybody inside the system is optimising their corner. International investors, by contrast, are looking at the system as a whole and cannot make sense of the cacophony. Germany's motivation in the debate on the European Stability Mechanism (ESM), the anti-crisis mechanism from 2013, was to safeguard its financial interest. That is legitimate, but the way it is done offers no solution feasible for the eurozone as a whole.

The third is a breakdown of communication. The EU has a tendency to hype whatever it agrees. The markets first react with euphoria to the announcement, then with disappointment once they have read the small print. When Germany raised the issue of a permanent anti-crisis mechanism, it gave few details. The markets were spooked. When news came out that Germany had climbed down over the question of automatic bondholder haircuts, the markets were euphoric. Details that have come out since are again more alarming. The way the ESM is constructed will make a debt default in the eurozone dramatically more probable. There is a good case to be made for limiting taxpayers' liability. But the scope and the details must be conveyed much more clearly.

A fourth aspect is a tendency by governments to blame investors when something goes wrong, rather than solve the problem. The prevailing view in Paris and Berlin is that last week's crisis was the work of nasty speculators. It is not the first time. Remember the ban on short-selling of equities? Or the "locust" debate about private equity a few years back? The point is that this time there is no George Soros-like speculator attacking the system. These are fairly normal investors who are pulling out, or regrouping. They have lost confidence in the eurozone's crisis management.

Fifth is the tendency to blame each other. In the spring, the Germans had a go at the Greeks. Now the Spanish and the Irish blame the Germans. Readers of this column know that I have been a frequent critic of German policy, but I think it unjustified to blame Berlin for causing the current problems. The cause of the crisis in the European periphery was the bursting of a credit bubble, and that bubble was not the work of the German government. The blame game is not a constructive way out of this crisis.

Finally, a sixth aspect is the tendency to appeal to a *deus ex machina* when all else fails. That would be the European Central Bank. Last week, several European politicians beseeched the ECB to act as defender of last resort. Market commentators raised expectations that the existing securities market programme would be extended from a volume of close to €70bn to €1,000bn or even €2,000bn.

It did not happen. Or did it? It is hard to say. Jean-Claude Trichet, president of the ECB, said little, but the ECB nevertheless bought hundreds of millions of euros worth of Irish and Portuguese debt that day. Mr Trichet knows that he can prevent contagion but also that he cannot save the eurozone alone.

I do not want to play down the ECB's role. Its liquidity policies prevented a calamity in August 2007, and later in the autumn of 2008. But it also delayed a resolution to the political crisis. Europe's bank resolution policy is the ECB, and only the ECB. That is why this crisis is lasting so long.

The euro is currently on an unsustainable trajectory. The political choice is either to retreat into a corner, and hope for some miracle, or to agree a big political gesture, such as a common European bond. What I hear is that such a gesture will not happen, for a very large number of very small reasons. The system is genuinely *überfordert*