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FOR IMMEDIATE RELEASE

EUROPEAN ECONOMIC CRISIS LIKELY TO WORSEN AND THREATEN SHAKY U.S. FINANCIAL SYSTEM, LEVY SCHOLARS SAY

ANNANDALE-ON-HUDSON, N.Y.— If European Monetary Union (EMU) policymakers continue to put fiscal austerity ahead of much-needed structural reforms, the economic crisis in Euroland will worsen and threaten to undermine a tottering U.S. financial system, a new paper from the Levy Economics Institute of Bard College says. In their paper "Delaying the Next Global Meltdown," Levy President Dimitri B. Papadimitriou and Senior Scholar L. Randall Wray argue that plans to resolve the economic crisis in Europe need to do more to generate economic growth in countries with large debt burdens and reconcile the current account surpluses of countries such as Germany, France, and the Netherlands.

"The central weakness of the EMU is that it separates nations from their currencies without providing them with adequate overarching fiscal or monetary policy structures," write Papadimitriou and Wray, who contend that the latest plan for the eurozone represents nothing but a doubling-down on the same flawed architecture of the Stability and Growth Pact's budget limits. "Countries with very different economies are yoked to the euro. Nations like Greece are not positioned to compete with countries that are more productive, like Germany, or that have lower production costs, like Latvia. Any workable plan to save the euro has to address those differences."

The authors suggest that policymakers ramp up the European Parliament's budget to 15 percent of GDP, with a capacity to issue debt; expand the role and funding of the European Financial Stability Facility; and, to help avoid vicious debt cycles due to exploding interest rates, allow the European Central Bank to become a buyer of last resort and purchase government debt issued by EMU members.

The authors conclude that a collapse of the EMU would derail the feeble U.S. recovery and send its financial system reeling. "U.S. financial exposure to Europe is something on the order of $3 trillion, half of which is due to investments in European banks by U.S. money market mutual funds," they write. "Given that many U.S. financial institutions are already insolvent, this kind of hit could send the system over the brink."

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One-Pager No. 24: *Delaying the Next Global Meltdown*

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit www.levyinstitute.org.

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