

Unforeseen debt crisis in Europe?



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Grant Amyot's comment on the quote "*My criticism is that Eurozone policymakers didn't do anything in the 10 years before there was a crisis*" by Joseph Stiglitz, the winner of the Nobel Memorial Prize in Economics in 2001, a former World Bank chief economist:

Mr Stiglitz is absolutely right. I believe that policymakers should have anticipated what was going on in Europe, in particular, and should have taken more effective measures.

The economists I know saw the problem already six years ago. I remember talking to a friend of mine, an economist from Italy and telling him: "Look at the spreads here between the bonds of the weak Eurozone countries and German bonds. They are so small. At that time the spreads were in the neighbourhood of 25 basis points: 30 basis for Italy, Greece was a bit more, but still, they were ridiculously small. The biggest drawback was that they did not reflect the fundamentals of the economies or what could happen were they subjects to any stresses.

Furthermore, in 2009 when Greek government came to power, the new one, under Papandreou, and realised how bad the debt problem was, at that point Germany, France and the other major Eurozone members ought to come across with strong guarantees for Greece. However, it was not done.