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Subcommittee on International Monetary Policy and Trade

Hearing entitled "The Eurozone Crisis and Implications for the United States"

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Thank you Chairman Miller, Ranking Member McCarthy, and members of the subcommittee, for inviting me here today. My name is Douglas Elliott. I am a Fellow in Economic Studies at the Brookings Institution, although I am here in an individual capacity and not representing the institution, which does not take policy positions.

The Euro Crisis is deeply concerning, in part because the path it follows is likely to be the main determinant of whether the U.S. goes back into recession. If Europe were to be shaken by a series of nations defaulting on their government debt, I am convinced that the continent would plunge into a severe recession. Their recession would trigger a recession of our own, although a less severe one, through a number of links across the Atlantic.

First, there is trade. Over $400 billion of our exports in 2010 went to the European Union[1]. We should expect to lose a significant portion of this while Europe is in deep recession. At the same time, European firms would likely gain market share at the expense of American sales and jobs, as the Euro depreciated and difficulties in selling within Europe spurred greater export efforts. Beyond Europe, emerging market countries like China also export substantial amounts to Europe and would find their growth slowing considerably. Our exports to those nations would be hit.

Second, there is investment. US firms have over $1 trillion of direct investment in the European Union. Profits from those operations, which are significant for our global firms, would decline markedly. We also have large sums invested in other nations, outside of Europe, that would be caught up in the same synchronized economic decline.

Third, there are financial flows. US banks, and their subsidiaries, have $2.7 trillion in loans and other commitments to eurozone governments, banks, and corporations, and roughly $2 trillion more of exposure to the UK[2]. US insurers, mutual funds, pension funds, and other entities also have a great deal committed to Europe. Credit losses would set back the progress we have made in moving beyond the financial crisis. Those losses would be exacerbated by

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[1] I generally use figures for the European Union rather than the narrower eurozone, because the UK and other EU members that do not use the euro are so closely tied to the eurozone countries that I believe they would also be severely impacted.

[2] My colleague, Domenico Lombardi, has a good summary of the financial exposures in testimony he gave to the Senate, available at http://www.brookings.edu/testimony/2011/0922_european_debt_crisis_lombardi.aspx

problem loans in the rest of the world, including our own country, induced by global economic problems.

Fourth, there is the effect on business and consumer confidence. We saw a taste of this in August, when problems in Europe quickly communicated themselves to our own financial markets and to confidence levels. Individuals and businesses are already scared. They would surely pull back on spending and investment still further if the European situation went badly wrong.

The combined effects of these four channels would almost certainly be enough to put us back in recession, although it is difficult to quantify the effects precisely, especially since there are numerous scenarios for exactly how the Euro Crisis could blow up.

Europe will probably muddle through, even though the process will be ugly and frightening. However, there is perhaps a one-in-four chance of a truly bad outcome, leading to a series of national defaults that include Greece, Portugal, Ireland, Spain, and Italy. There is also a small chance of one or more countries leaving the Euro, which would create still more damage. My one-in-four probability estimate is necessarily a very rough one. There are many different ways things could go wrong, since the eurozone is made up of 17 nations with their own political, economic, and financial systems. Each risk has a low probability, but there are a multitude of those risks, so they add up. I have attached a short paper giving more details about the crisis, particularly why it is so hard to solve and how it may proceed from here. The paper can also be found on the internet at:
http://www.brookings.edu/papers/2011/0822_euro_crisis_elliott.aspx

The actions expected to be announced this week may well improve the situation, but will be far from sufficient to resolve the core problems. First, government leaders are unwilling to increase their national commitments to the European Financial Stability Facility beyond the previously agreed 440 billion euros, which is clearly inadequate to reassure markets, especially since much of that is already committed. Therefore, they are looking for ways to leverage those funds to get closer to the 2 trillion euros or so of capacity that is really needed. It appears this will be done by providing guarantees or insurance on a portion of the value of bonds issued by troubled eurozone countries. This is better than doing nothing, but is unlikely to restore markets in those countries to anything like normal operations. Knowing that the first 20% of potential losses on Portuguese or Italian bonds will be absorbed by someone else is not that reassuring when investors in Greek bonds are about to be hit with losses of 40-60%. The type of investors who would be lured by such guarantees are the ones who look for fat returns from somewhat riskier investments, which suggests that bringing them in will not appreciably reduce the interest rates paid by these governments. Instead, government bond markets need the much larger capacity and liquidity provided by the kind of investors who look for safe, liquid investments. That will not happen without solving the underlying problems or providing guarantees backed by more creditworthy countries or multi-lateral bodies.

Second, a bank recapitalization that adds approximately 100 billion euros of capital is also a step forward, but, again, will not lay investor fears to rest. The IMF recently estimated that sovereign debt problems had eaten away at least 200 billion euros of economic capital from the European banks. Adding a figure half that large is unlikely to impress markets. Looked at another way, 100 billion is about one-tenth of the approximately one trillion euros of capital already held by the 90 large European banks that would be subject to the new requirements. It also represents less than half a percentage point of the 27 trillion euros of assets owned by those banks.

The technical details of the recapitalization will matter as well. If designed badly, the plan could even do harm by encouraging European banks to cut back on lending and to sell existing assets, potentially creating fire sales such as contributed to the financial crisis in 2008. A serious credit crunch would likely plunge Europe into recession.

Third, strong-arming investors into "voluntarily" accepting losses of 40-60% on their Greek government bonds will certainly add to the risks of contagion if market concerns about other troubled eurozone countries spike again at some point.

Whatever happens this week, we would be wise to prepare, in case the crisis worsens. We should continue to strongly encourage the Europeans to take the necessary steps. We should continue to provide US dollar swaps to the European Central Bank for them to use to help their banks with dollar-based funding needs. Our regulatory agencies should continue to monitor the exposure of our financial institutions to European risks, but without making the Euro Crisis worse by over-reacting.

Finally, we should stand ready to consider ways in which the IMF might provide further assistance to Europe. The Eurozone has the joint resources to solve its own problems, but participation by the IMF brings multiple advantages. First, it increases the total pool of resources, in order to reassure extremely jittery markets. Second, it can impose some discipline on the borrowers through conditionality on its loans, which is easier for an outside party to demand. Third, it can provide quite considerable technical aid in dealing with economic restructurings, such as are needed in this case. This technical advice carries more weight when the IMF is also committing money.

This is a European problem and they will need to provide the backbone of any solution, but it is strongly in our interests to help in any reasonable way that we can.

Thank you for the opportunity to testify. I welcome any questions you have for me.

MONDAY OCTOBER 24, 2011

Why Can't Europe Get it Right the First Time... or the Second... or the Third?

Financial Markets, Financial Institutions, International Finance, Europe, European Union

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The Brookings Institution

AUGUST 22, 2011 —

The Euro Crisis has struck again, hammering not just European markets, but doing real damage to U.S. markets and to economic prospects around the world. The U.S. could easily be pushed into another recession if the eurozone collapsed. We export well over $300 billion a year to those 17 countries; virtually all of the rest of our exports go to nations that also export to the eurozone and would feel ripple effects; roughly two-fifths of our overseas assets are invested in the eurozone; and our major financial institutions have large credit exposures to eurozone banks and other businesses.

It seems remarkable to many Americans who are following this at a distance that the politicians and Eurocrats cannot find a way to end the crisis, or even to contain it for more than a few weeks or months at a time. The government responses to each phase of the crisis follow the same repeated pattern. First, deny that anything needs to be done beyond what has already been agreed and blame the markets for launching "speculative attacks" out of impatience, misunderstanding, or greed. Second, when these denials just scare the markets further, scurry to convene high-level meetings to work out some step forward that will stop the market disaster that is building. Finally, at the last possible moment, announce a major move towards further economic integration of the eurozone, focused in particular on providing more support from the solid parts of the zone to the weaker ones. However, this major move is never enough to prevent the seemingly inevitable next phase of the crisis, in part because the biggest moves require approval of 17 national parliaments, which takes time and adds uncertainty. Worst of all, each phase of the crisis is more threatening than the last. (Who would have believed two years ago that there would be serious fears expressed about France's creditworthiness?)

From a distance the responses can seem outright inept, but the core problem is really the cruel set of constraints the politicians face. For many of them, the choice appears to be between losing the next election by taking bold actions that are highly unpopular with the public or losing the next election because a failure to take such actions leads to a breakdown of the eurozone and a vicious recession. Faced with a choice of being hung or electrocuted, the leaders naturally search for another option, which consists of taking strong enough action to postpone the climax of the crisis while avoiding crossing the public mood so thoroughly that electoral defeat is guaranteed. This at least gives them the chance that external events will rescue them, the fears will prove to be overblown, or the public mood will adjust to accept the bigger steps that will ultimately be necessary. Buying time is not heroic, and may not even be leadership, but too many heroes receive their medals posthumously for heroism to appeal to most politicians.

Before walking through the detailed analysis of the mistakes that led to the present peril, I feel compelled, as a non-European, to stipulate that America also made grievous fundamental mistakes as it struggled to establish a union [1] and our recent debt ceiling debates likewise show that tough political constraints can make leaders look inept. This is not about European stupidity or blindness. If anything, some of the problems stem from being "too clever by half," in particular by assuming that known weaknesses in the original structure would lead to future problems that would spur greater economic integration at that time.

The eurozone was established, and operated for many years, with a potentially fatal flaw. The nations combined their currencies, and therefore their monetary policy, without doing much effective to insure that their economies operated similarly enough for a single monetary policy to work. In fact, the original Stability and Growth pact that was intended to at least limit national deficit levels was gutted when it started to constrain Germany and France, the two most dominant powers in the eurozone.

This critical weakness was exacerbated over time as the markets convinced themselves that the credit risks of all eurozone governments were roughly the same, in part because the solid economies of the zone would presumably never permit the weak countries to default [2]. This set the zone up for massive problems when it became clear that diverging economies and political responses over the years had created major differences in the true creditworthiness of the different countries on a stand-alone basis and that the German public, for example, might not be keen to step up to support the Greeks in their hour of need. (It did not help, of course, that it turns out the Greeks had literally lied in important matters in their application for eurozone membership in the first place and continued lying for some time. The resultant anger came on top of the substantive problem that the German public viewed the Greeks as running an excessively generous welfare state and refusing to collect the taxes needed to support it.)

There are also strong connections between weaknesses in Europe's banking systems and the problems of sovereign debt, which make both sets of issues harder to fix. Banking crises, and the threat of them, have done severe financial damage to the public finances of some weaker countries, particularly Ireland. At the same time, banks hold large quantities of sovereign debt of the weaker countries, putting the financial system in danger from potential sovereign defaults. This is too complicated and important a topic to fully address here, but the interconnections make solving the Euro Crisis even harder.

Whatever the risks, the creation of the euro did bring many benefits. The founders of the euro believed that a common currency would move its members substantially closer together economically, making it easier, for example, to sell common products and services across European borders without currency risk. The euro also encouraged common pricing across the eurozone by making it easier for customers to see price differences, without the obscuring effects of currency differences. Some of this was psychological, but it does seem to be true that the advent of the euro brought zone members substantially closer together. Equally or more important, having a common currency and monetary policy largely removed the risk of excessive inflation that had existed in many of the member countries, pushing up interest rates, hurting their currencies, and generally harming economic performance. Most of the founders also shared a political goal of "an ever closer union", as the slogan of the EU runs. Sharing a common currency was a major step forward in this direction, if only because the zone members needed to agree on a common monetary policy and to coordinate in other ways.

Most of the founders appear to have recognized that there were economic risks in bringing countries together in a currency union when there were still so many differences in their economies, political structures, and cultures. However, the potential gains were large and they thought that they could manage any problems that arose. This was not unreasonable, since the European Union over time had developed more and stronger common structures in part through an incremental process in which difficult periods brought the response of creating or enlarging common institutions to combat the problems. Frequently, the answer to the problems of Europe came to be "more Europe."

These founders may be proved right in the end that any crises with the euro would be resolved through greater integration, which is the approach already being attempted. Unfortunately, they may end up echoing the words of King

Pyrrhus after he won a very costly battle, "one more such victory and I am undone." In the year and more since the Euro crisis erupted in earnest, the eurozone has taken a number of steps towards greater union that would have been virtually unthinkable two years ago. Taxpayers across the eurozone have provided guarantees supporting loans to Greece, Ireland, and Portugal, in exchange for which these countries have signed on to promises of quite painful changes. An even larger European Financial Stability Facility (EFSF) is pending approval by national parliaments, which is targeted to occur by late September or early October. (This will eventually be succeeded by an even broader European Stability Mechanism.) The EFSF will have a great deal of latitude to provide financial support for struggling eurozone countries, including providing funding to support banks in those countries, in exchange for what are likely to be fairly drastic policy changes. Even the initial loans contravened long-standing assurances that each nation was on its own as regards the repayment of its debts. These were not trivial assurances. It is doubtful that Germany, for example, would have been able to join the euro without those assurances to its voters.

The European Central Bank has purchased existing government bonds of Greece, Ireland, Portugal, Spain and Italy. This was to support their market prices and therefore hold down market interest rates and, hopefully, the rates these governments will have to pay for future bond issuances. This was a huge move, since it puts the ECB at risk of losing substantial sums of money if there is an eventual default on some of these bonds or if it has to sell the bonds at a time when prices are lower. The ECB has also continued to accept government bonds from the troubled countries as collateral for loans to European banks. Without this, it is doubtful that some of the weaker banks in the struggling countries could survive, since they own substantial amounts of government debt, often having no choice in the matter due to regulatory requirements. Taking these steps together, the ECB is playing a critical role, perhaps even the critical role, in supporting the financial stability of the eurozone. There are many who fear the ECB is losing a considerable portion of its independence by doing work that national governments should be doing [3].

These are strong actions. If they had been taken at the beginning of the crisis, or if mechanisms had been set in place to do these things when the euro was founded, it is unlikely that the crisis would have grown to nearly its present proportions. It would have been clear that the strong eurozone members highly valued the euro and would take extraordinary steps to ensure the zone survived, which, after all, was the market's view for most of the first decade of the euro's existence.

So, why is there still a problem, and quite a major one? Unfortunately, the governments of the strongest eurozone member states have shown a great resistance to taking each one of these necessary steps and they continue to strongly resist further steps which have become necessary. Markets understandably feared each time that the latest set of crisis responses might prove to be the limit of what the eurozone could do. This matters because none of the steps to date, big as they are, will be enough if market fears balloon much further.

Sufficiently strong and sensible government responses can put an end to the crisis. The eurozone, taken as a whole, clearly has the economic capacity to pay all of its debt. The market fears are that the weaker members of the eurozone cannot solve their debt problems on their own and that the strong countries may not provide sufficient support to overcome those weaknesses. These fears were ratcheted up considerably by the demonstration effect of seeing the main private holders of Greek debt pushed into accepting more than a 20% loss on the face value of their bonds. This may have been politically essential in order to gain consensus for the other steps to fight the crisis, but it rattled the markets. We have now gone from a situation where many investors viewed eurozone bonds as nearly riskless to one in which substantial losses are quite conceivable, even probable in some cases. Not surprisingly, markets started demanding higher interest rates to compensate for the evolving risk, rate movements that helped trigger the next phases of the crisis.

For the eurozone to avoid the true disaster scenarios, it will almost certainly be necessary for the member countries to provide a common guarantee for much, if not all, of the debt of the other member countries. (There also need to be long run, and difficult, actions to deal with major competitiveness problems in the periphery of Europe, particularly in Greece. These are important, but lie outside the scope of this paper.) The markets are too concerned to accept anything less than an ability to rely on the economic strength of the full eurozone (or, realistically, of Germany and the other strong members.) There are multiple ways to do this, of which the leading candidate appears to be the idea of a "euro bond," also known as a "blue bond," after the predominant color of the EU flag. Blue bonds would be backed ultimately by a "joint and several" guarantee from the member countries, meaning that each accepts the full obligation to repay any other member's blue bonds if that country does not repay the bonds directly. (There are also variations of this plan in which the European Financial Stability Facility, or a similar body, would be the issuer of the bonds.) The leading proposal would limit the amount of blue bonds each member country could sell, and thereby limit the exposure of the other member countries through their guarantees. Any additional borrowing would have to be in "red bonds" that would be less creditworthy since they would have no guarantees.

The beauty of the blue bonds is that they would be highly creditworthy and would therefore allow countries to borrow easily at a very low cost, making the debt problems of the weaker countries much easier to bear. Over time, it is even possible that blue bonds might rival U.S. Treasury bonds as the perceived safest asset an investor could own. Blue bonds may also be the weakest form of fiscal integration that is still strong enough to reassure the markets. (It would be a giant step, but still not as big as some other potential approaches.) At the other extreme, a unity tax could be put in place on all eurozone citizens, with the taxes dedicated to paying down the debt of the various countries. Less drastically, eurozone governments could agree on larger transfers of aid to the weaker countries, effectively using taxes on the strongest countries to aid debt repayment by the weakest. Solutions of this more direct type, with major transfers rather than the issuance of guarantees, would be much more difficult to sell politically and are probably not feasible except as a small part of a larger approach.

Even if one accepts the economic need for greater fiscal integration, politics may render it impossible. Leaders in Germany and other strong eurozone countries are caught in a terrible vise. Their constituents do not support the necessary actions, which they perceive as being a bailout of foreigners at the expense of themselves. They also fear that the necessary actions to restructure the troubled economies will not be taken, leading to costly long-term life support from the strong economies, especially Germany. Germans do know that there would be some pain if the euro fell apart, but most of them disliked trading in their beloved Deutschmarks for euros in the first place and do not recognize quite how difficult it would be to go back again. On the other hand, the political leaders can generally see that their countries would be devastated by the collapse of the euro, even if the public cannot. This leaves them with the choice of saving the euro while angering their voters or risking a renewed severe recession that would also make them very unpopular with voters, while doing their country permanent harm. In the end, I believe that the leaders will stare into the abyss, turn back, and take the necessary measures, despite the potential for immense short-term political pain. However, this least-bad outcome is far from guaranteed, which is an underlying reason why European bond markets are so troubled.

Why would it hurt Germany so much if the eurozone collapsed? The exact mechanisms depend to some extent on the form of the collapse. Weak eurozone countries could default on their bonds, as Greece effectively has done, in which case the degree of market reaction would depend to some extent on whether the losses were at least negotiated semi-voluntarily with major market participants, as well as, of course, views about whether other weak eurozone members might default. Unfortunately, it is likely that quite a number of eurozone countries would default unless the leaders take the kind of bold action discussed later that could prevent a collapse of the eurozone. Each country that defaults increases the market pressure on the next weakest, as we have already seen after Greece defaulted.

It is also possible that one or more eurozone members would withdraw from the euro. This outcome would be very bad in the short run, although there are some who claim that Greece, for example, would be better off over time by shaking off the shackles of the euro and adopting their own monetary policy and allowing their currency to devalue. (Others argue that the resulting inflation and weak currencies would combine with other problems to make the Greeks much worse off in the long run.) Unfortunately, we do not know how bad the outcome would be even in the short run, in part because the euro was deliberately set up without a mechanism for unwinding it. There are immense legal, political, and economic issues that would have to be resolved in this extreme case. (This lack of a mechanism was, to a large extent, a deliberate poison pill to make it impossible to contemplate backing out.) Nor do we know what the net benefits or costs would be in the long run, because of the difficulty of prediction about such a complicated change.

Despite the uncertainties, it is highly likely that Germany would be hit very badly through a combination of mechanisms if the eurozone breaks in one of these manners. The weaker countries that defaulted or even left the eurozone would surely go through a severe recession initially, no matter what the longer-term effects. Chaos would ensue until things gradually clarified, business and consumer confidence would plummet, and external funding would likely disappear for a time. Germany would be directly affected by the loss of exports to these countries and by investment losses for Germans citizens and institutions with stakes in businesses in the defaulting nations. In particular, German banks have lent large sums of money to governments and to banks in many of these weaker countries, which could trigger a credit crunch as crippled German banks cut back on their risk taking. Other countries, both in the eurozone and outside of it, would suffer similar losses of exports and investment losses, which would weaken their own economies, producing further export losses and investment losses for Germany.

If some of the defaulting countries also left the eurozone and established their own currencies, these currencies would almost certainly fall sharply in value against the euro, hurting German export competitiveness in relation to these countries. Exports are a major part of the German economy, so lost exports matter a great deal. As an illustration, Germany suffered a significantly greater loss of production than the U.S. from the initial impact of the recession caused by the recent financial crisis, because exports dried up and Germany is much more dependent on net exports than is the U.S.

Chancellor Merkel in Germany is in an unenviable position. The junior partners in her own coalition, the Free Democrats, strongly oppose blue bonds and other forms of substantial fiscal integration. The Christian Socialists, historically very close allies of Merkel's Christian Democrats, to the point of almost being the Bavarian wing of the same party, are not keen on greater fiscal integration, although they might go along in the end. The main German opposition parties, the Social Democrats and the Greens, appear supportive of greater fiscal integration, but Merkel would have to agree to major changes to other parts of her political program if she let the Free Democrats drop out of the coalition and allied herself instead with one of the opposition parties. Worse, from her point of view, blue bonds could be one step too far for the German public, leading to a dramatic repudiation in the next election.

She does have one unusual structural advantage, though. The German constitution requires a "positive vote of no confidence" to remove a Chancellor, meaning that, unlike in almost every other parliamentary democracy, a government cannot be pushed out without a new viable government being simultaneously voted in. This is important, because it is not clear that anyone else could garner a majority in the Bundestag, the more powerful of the two houses of parliament and the one that chooses the Chancellor. Therefore she may have until the fall of 2013, when the next election must be held, in order to recover from the initial blast of unpopularity [4].

Whatever the exact politics of the situation, the broad outlines are very ugly for the chancellor. The right choice may be to support a least-bad solution that would anger many of her voters. This is similar to the TARP vote in the U.S., including in the fact that the direct beneficiaries are not viewed as deserving by the public. Nobody liked American bankers when TARP was voted on and it would be difficult to find a German today who felt that the Greeks morally deserved assistance. (Again, the cheating by the Greeks on their application is extremely galling to Germans and others in the eurozone, in addition to all the other self-created problems in the Greek economy and political structure that worry the German public.)

There is another quite relevant parallel with the TARP vote. "Europe" has always garnered much more support among the elites of that continent than among the broader publics. It is unlikely that a number of the major steps towards closer union, including the establishment of the euro, would have gone forward if referendums had been required in each of the major countries. German voters, for example, were clearly loath to give up their Deutschmarks, but were not given a chance to veto the move. The parallel with TARP is that it is hard to persuade voters to do something as distasteful as providing a large aid package to people they view as undeserving, when the arguments in favor rely on accepting that the elites understand what is needed at a time when faith in those elites is at a very low ebb.

Speaking of the TARP, another reason that Europe's leaders may eventually do what is necessary to prevent a collapse is that sovereign defaults by the weaker governments could force a costly set of bank rescues by Germany and the other strong governments. (The weakest ones may not have the resources in that case to rescue their own banks, but may simply have to nationalize them and pick up the pieces and start over, effectively creating a new banking system.) German and French banks, for example, own large amounts of sovereign debt of the weaker countries in the eurozone. They also have large exposures to corporations in those countries. Widespread defaults in the eurozone would render many banks insolvent and others very shaky, threatening a severe credit crunch. Even the ECB could take large losses that would probably require a recapitalization by those countries remaining in the eurozone. So, there may be no avoiding a large bill for the taxpayer, whether to rescue other eurozone countries or to rescue German banks harmed by the defaults from those nations.

Returning to the question posed in this paper's title, the core reason that Europe has not yet gotten its response to the Euro Crisis right, despite multiple attempts, is that political constraints make it extremely difficult to do the ultimately necessary things. Even now, we cannot be certain that the key political leaders will be willing or able to take the final bold steps to halt the crisis. One can only hope that staring over a cliff at a very steep drop may produce the necessary resolve. One unfortunate corollary is that we will probably have to live through a couple more escalating phases of the crisis before the drop looks terrifying enough to persuade the leaders to put in place the ultimate solution.

Footnotes

[1] The first U.S. constitution, the Articles of Confederation, proved so flawed that a completely new constitution had to be written within a few years. This constitution, our current one, fudged major issues around the relationship between the federal and state governments and, to our shame, about slavery. As a result, we almost faced secession in the 1820's and then fought a civil war in the 1860's. So far, there are no armies rolling across European borders and the debate has been surprisingly civil considering the high stakes and divergent views.

[2] The eurozone governments always stated that there was no such guarantee, but the markets did not believe them, in part because few steps were taken to avoid a situation such as the current one, where the provision of aid, and even some guarantees, became inevitable.

[3] Acting as a "lender of last resort" is the classic role of a central bank, so this in itself is not a problem, but the theory has always been that the central bank would lend against solid collateral. Buying government securities that the market views as risky, or accepting collateral at what the market views as inflated values, does not fit with this concept. The idea of central banks taking high levels of risk of loss is anathema to most central bankers.

[4] This advantage is somewhat offset by a rolling set of state elections which could change the balance of power earlier in the Bundesrat, essentially the other chamber of parliament, representing the states. However, the Bundesrat is considerably less powerful than the Bundestag, having a say only on certain areas of legislation, albeit important ones, and in some areas only the ability to delay legislation, if the Bundestag supports it in a second vote. There is also a Constitutional Court which could conceivably block German acceptance of greater fiscal integration in the Eurozone. However, the Court has shown in the past a marked reluctance to overrule the government on items of this level of

importance regarding Europe. They may be very loath to set themselves up to be blamed for a collapse of the eurozone by invalidating government actions in this area.

United States House of Representatives
Committee on Financial Services

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Douglas J. Elliott	I am testifying on my own behalf
3. Business Address and telephone number:	
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4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
☐ Yes ☑ No	☐ Yes ☑ No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
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Douglas J Elliott	

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