

ft.com/frontpage US All times are London time

# FINANCIAL TIMES



**Kenneth Rogoff**  
A-List: Eurozone will cast  
a lengthening shadow



**George Magnus**  
How to avoid a 'zombie'  
Europe

**Online retail** Allure of smartphones and price-scan apps  
**John Kay** Battle of spontaneity versus slogans  
**Inside Asia** Japanese aero industry hit by Lightning

Highlights Short View FT Seasonal Appeal: Sightsavers FT Trading Room Special Report: Commodities beyondbrics: China copycats

From **GLOBAL ECONOMY** 12:34pm

## Demand for ECB loans rises to €489bn



Take-up of unlimited 3-year funds breaks records

In depth [Eurozone in crisis](#) Video Banks grab €500bn ECB lifeline Money Supply ECB doles out €489bn in loans  
Global Insight EU navel-gazing

From **WORLD** 11:12pm

## Republicans vote down 2012 tax deal

House rejection raises prospect of  
New Year payroll tax rise

Republicans challenge US stimulus fix  
Edward Luce The long haul in Washington  
gridlock

From **COMPANIES** 11:35am

## Foreign carriers must pay EU carbon fees

Europe's highest court clears way for  
scheme to start January 1

US threatens EU over green levy on airlines  
US airlines fight EU plan to extend pollution  
charge

From **COMPANIES** 12:01am

## Fed proposes new bank capital rules

US lenders face higher ratio  
requirement

In depth [US financial regulation](#)  
Bank of America stock closes below \$5  
In depth [US banks](#)

### GLOBAL MARKET OVERVIEW

from **MARKETS** 3:32pm

## Euro relapses in wake of ECB largesse

Risk appetite falters after bright  
start

US data boost homebuilding stocks  
Euro gains as Spanish auction lifts mood

### More news

Oracle's earnings miss chills tech stocks  
Greenhill bankers die in New Jersey air crash  
Ski resorts give Colorado workers a lift  
Facebook to allow advertising in news feed  
BP to exit solar business after 40 years

### Lex video: What next for T-Mobile USA?



The \$39bn sale of the unit to AT&T has been dropped. Lex asks where this leaves parent Deutsche Telekom

From **WORLD** 4:22pm

## Data highlight housing market weakness

New figures show fewer homes sold in 2007-10

US home construction on the rise Gloom eases slightly for US builders

From **GLOBAL ECONOMY** 4:18pm

## Indignant rich round on the fury

Responding to the Occupy movement, millionaires are counter-attacking

Protests shut two US west coast ports Pay gap a \$740bn threat to US recovery



From **COMPANIES** 6:14am

## Prosecutors raid Olympus Tokyo offices

Investigation of accounting scandal that concealed Y100bn losses

Japan tightens M&A rules after Olympus In depth [Olympus acquisitions' controversy](#) Olympus considers use of strategic investor

From **COMPANIES** 3:59am

## Wendy's to unseat No. 2 Burger King

FINANCIAL TIMES December 21 2011



Kenneth Rogoff

December 21, 2011

[Predictions from the FT's A-List on the big challenges of 2012](#)

## The eurozone will cast a lengthening shadow in 2012

Sadly, the eurozone's uncertain future will continue to cast a huge shadow over the global economy next year. Surely there are other concerns, including the risk of a not-so-soft landing in China, of pre-electoral paralysis in the US, and of a large, unexpected geopolitical shock. Even in the most benign scenario, the massive overhang of global public and private debt will hinder any robust recovery in the advanced economies. But the eurozone remains far and away the greatest source of vulnerability.

There is no easy solution. The eurozone needs a new constitution that creates powerful, centralised fiscal and regulatory authorities, with corresponding political integration. Substantially greater integration probably means ousting some of the less developed states until they are sufficiently economically advanced. Unfortunately, such a course is politically unacceptable, not least to France, a core member.

Therefore the only realistic medium-term solution is an expansive interpretation of the European's Central Bank's charter, ideally prefaced by a huge restructuring of public and or private debt in several periphery countries. The ECB is understandably nervous of losing vast sums by pouring money into a leaky bucket, especially without an automatic fiscal backstop vast enough to absorb losses. Germany, in turn, is understandably worried about having to pay a disproportionate share of any future recapitalisation, not to mention about being gamed into tolerating much higher inflation as a back-door solution.

To make matters worse, the upshot of the latest EU negotiations seems to be that private sector burden-sharing is off the table for everyone but Greece. This is an absurd

position if there ever was one. A system that does not allow for bankruptcies is no system at all.

The euro problem could still be fixed in the medium term with a combination of tough debt and economic restructuring in the periphery, combined with very expansive central bank policy. An implicit northern Europe debt backstop could prevent inflation exploding, at least for a while. Ideally a few weaker countries would leave the single currency, to regain competitiveness and pave the way for tighter union among the rest. The long run consequences might not be pretty, and the eurozone would still need a new constitution to avoid perpetual stagflation.

For now, 2012 looks set to be another year of floundering towards an uncertain future for the euro-system.

*The writer is is a professor of economics and public policy at Harvard University and co-author of 'This Time Is Different'.*



### US burger wars heat up as consumers grow more demanding

The public image McDonald's viral non-ad Yum plans to be the McDonald's of China

From **GLOBAL ECONOMY** 9:58am

## BoJ downgrades view of Japan's economy

Sliding exports and expensive energy imports dim picture

Japanese groups turn negative on outlook Japanese stocks hit by Takan outlook fears

### FT Alphaville

#### SEASON OF GOOD NEWS?



A streak of surprisingly not-too-bad US indicators heading into the new year - or is it 2010 again?

#### CALLING ALL PETRO-STATES



The eurozone needs you — and you need the eurozone! So, start up the trucks for sovereign debt

#### THE 6AM CUT



A quick and accessible digest of key news stories and commentary for financial professionals