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Rethinking Deficit Monetization Taboo to Save the Euro

This paper argues that the sovereign debt increase in Eurozone is the main problem for the survival of the European Monetary Union. The idea that debt sustainability could be achieved through a mix of austerity, growth and inflation failed because austerity acted against growth and inflation. Only a certain dose of financial repression implicit in QE policy worked against the debt increase. This is why the standard debt resolution toolkit (debt restructuring or conversion, high inflation and more financial repression) entered the public debate. The paper claims that the only way to take the road of growth and inflation as an exit strategy from the excessive Eurozone debt is a strong fiscal stimulus that should be designed so as to target both aggregate demand and potential output. Public investment is considered the key-variable in this approach to the extent that the public capital stock is a driver of growth, directly entering in the firms' production function or shifting total factor productivity. Nevertheless, the paper argues that the vast needed programme of infrastructural public investments must be financed through a conditional and temporary overt monetary financing at European level in order to avoid the impact on debt.