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And the Oscar for the Hardest Hit From the Greek Bailout Goes to...

- By IRWIN STELZER



Nothing creates as much unhappiness among Peters as being robbed to pay Pauls. Which is one way to look at what is going on in euro zone, where Hans is being robbed —not given any choice—to pay for carefree Stavros, and may soon be robbed to pay for José's and João's. There is a load of dicey debt out there in euroland—no one knows how much—and the markets are not signing on to the plan of the eurocracy to cope with it. Think of it this way. Someone is going to lose money. As they would say at the Oscar awards ceremony in Hollywood: the nominees for this honor are:

- Anyone who has loaned money the Club Med nations, including banks in Europe and the United States;
- banks and money market funds doing business with Club Med creditors;
- taxpayers in the EU and the U.S. who are being asked to bail out the stricken countries, either directly or through the International Monetary Fund; and
- savers, pensioners and future generations if the European Central Bank decides to print money to pay for the sovereign debt it is buying because the markets won't, at interest rates the borrowers can bear.

I might have missed a few nominees, but you get the idea.



Associated Press

The category for biggest bailout loser contains some big-name nominees

If this were the Oscars, we would open the envelope and find that the powers-that-be have elected all of the above, with the exception— for now, at least — of those to whom Greece and other sovereign debtors owe money. Which seems strange: these lenders of their own free will made loans in pursuit of what they considered returns commensurate with the risk they were assuming.

To politicians steeped in the ethos of the euro zone, it is a matter of war and peace, of preventing the European project from collapsing and leaving mighty Germany free to pursue its own rather than European interests. To them, if the euro collapses, or if the euro zone shrinks rather than continuing to attract new members, the European "project" will be at an end, with consequences foretold in Europe's bloody history.

Less apocalyptically, the French fear that if there is a default—the polite term is "restructuring"— they will have wasted a crisis, and failed to take the next step to replace a Europe of sovereign states with a United States of Europe by centralizing control over individual nations' fiscal policies. The only questions are what form the formal central review will take, and what penalties will be imposed on nations that overspend—fines, loss of votes, or expulsion of serial miscreants are all being discussed.

Economists see things somewhat differently. Bailing out Greece has created moral hazard by signaling to other countries deeply in debt that, even if they are small, are still too big for the eurocracy to allow to fail. But if, as planned, euroland as a whole borrows money in order to pay off Greek debt, it will merely have transferred the risk to

the balance sheet of the euro zone as a whole—you can't eliminate debt by borrowing to pay it off. You can lower the interest cost by assuring investors that reluctant Germans stand behind rioting Greeks. But markets are saying that the eurocracy is only postponing the day of reckoning: there isn't enough money available from the north to prevent restructuring Greece and others for very long. Soon the burden of solving the problem will pass to Greece's creditors, who undoubtedly are already figuring they will have to write off a portion of their loans—30% is the number being bruited about.

Unless, of course, the European Central Bank begins printing money to pay for the sovereign debt it is buying. No knowledgeable person believes Jean-Claude Trichet's promise not to do that: his purchase of these bonds "does raise questions about the independence of the ECB", says Stanford University's John Taylor. Instead, we are likely to see a flood of newly minted euros, driving its value down to around \$1.10. Or so experts are predicting.

There will be an increase in German angst: German terror of inflation and resentment at the bail-out has already deleted "Iron" as a descriptive of Chancellor Angela Merkel. But the lower euro is bringing cheer to industrialists, and not only in Germany. Exports are booming. Stock pickers are guessing that Spain's Banco Santander, and France's Groupe Danone will join Germany's Siemens and BMW AG as beneficiaries of the lower euro.

But that is merely a tiny ray of sunshine through clouds that won't be dispelled until writedowns and fundamental economic reforms replace attacks on "speculators" as part of the solution. Meanwhile, austerity and slow or no growth will be the order of the day for an area that proudly styles itself "the lifestyle superpower."

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