

Euroland Moves From Tragedy to Farce

- By IRWIN STELZER



What a euroyear it has been. The show opened with a Greek tragedy and is closing with, well, a eurofarce. Greece found out it can't pay its creditors, Ireland thought it could but it couldn't, Portugal and Spain think they can, but they can't. And the Eurocracy responded with a farcical promise to set up an unspecified structure to raise an unspecified sum to pay an unspecified portion of those bills. Germany permitting.

The interesting thing about the year that is now coming to a close is that the turmoil in the currency markets proved the Euroskeptics right—monetary union without fiscal union is not tenable in the long run—and was nevertheless a victory for those who have always seen the creation of the euro as merely an essential first step on the road to political union.



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The year saw the markets awaken to the fact that there are enduring differences between southern and northern Europe. No longer would countries running huge budget deficits be able to borrow on the same terms as Germany. No longer would income transfers to Spain be able to paper over that country's dependence on an unsustainable property boom, fueled by cajas ready to lend on the skimpiest proof that the loans would be repaid. And no longer would Portugal be able to persuade lenders to make credit available on reasonable terms despite the inability of its economy to eke out any discernible growth. In short, the party's over.

But a new one was launched, this one with the Eurocracy and Germany serving as co-hosts, the former providing the meeting room, the latter the money. First came the hors d'oeuvres, bailouts for Greece and Ireland when international markets became effectively closed to them. Then came the main course: establishment of bail-out mechanisms to assure lenders they need not fear default by any nation that had been invited to the europarty. Finally, the dessert, a delectable confection that promised one and all that never again would a crisis like this emerge because all of the club members are now prepared to follow the path taken by the United States some 200 years ago. As the Founding Fathers put it when they affixed their signatures to the Declaration of Independence, "We mutually pledge to each other our Lives, our Fortunes, and our sacred Honor"—with the emphasis in this case on "Fortunes."

All else that happened in euroland in 2010 pales into insignificance when compared with the decision to set up mechanisms for replacing—some say supplementing, some say monitoring—national decision-making on fiscal policy with control by the Brussels-based Eurocracy, amending the Lisbon Treaty to make that possible. This is the step that the founders of the euro always knew would some day be necessary. That day has now arrived, and they are delighted.

Or almost. For the price of this "more perfect union" (to borrow again from American experience, in this case the language of the Constitution) is allowing Germany to become a lot more than *primus inter pares*. Germany is the paymaster, and the price for the use of its stellar credit rating, and the strength of its still-expanding economy, is deference to the wishes of Chancellor Angela Merkel. After all, with

about half her electorate aching for a return of the deutschemark, and an even larger portion unhappy about picking up the check for the partying Greeks, she has no choice but to demand control in return for cash. As Peter Zeihan of Stratfor Global Intelligence puts it, "Germany is attempting to trade beneficial benefits for the right to make policy adjustments that normally would be handled by a political union. It's a pretty slick plan..."

So here's how the euroyear ends. Greece, Ireland, Portugal and Spain will have to restructure their sovereign obligations, with investors on notice from Germany that they will face haircuts as part of the process of neatening national balance sheets. When these indebted countries restructure, not only their own banks but those in Germany and other countries will have to write down some of the sovereign and company debt on their balance sheets, just at a time when they will have to raise capital to meet new regulatory requirements. That will reduce their ability to lend to fund growth just when austerity is biting because of conditions imposed by the International Monetary Fund, the European Central Bank and the Brussels bureaucracy, the latter speaking on behalf of Ms. Merkel. Meanwhile, the ECB is doing its bit: last week it almost doubled its purchases of government bonds to prevent interest rates from rising.

Here's the farce. All of this absorption with internal matters has reduced the importance of the EU in international affairs, exactly the opposite effect the Europhiles had anticipated closer union would produce. An internal EU report notes, "Europe is no longer the main strategic pre-occupation of U.S. foreign policy... The U.S. is increasingly looking to new partners to address old and new problems." Worse still, as the year ended the players in this farce squeezed in one more meeting, this one in Beijing.

China has been pouring money into Africa and other developing nations in order to buy resources and, more important, influence. Now, says Wang Qishan, a Chinese vice-premier, his country will use its new wealth to support the euro zone. "We appreciate the support of China..." responded Olli Rehn, Europe's commissioner for economic and monetary affairs. As do his counterparts in the developing world.

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