

- AGENDA
- JANUARY 17, 2011

Advice for Eurocracy: Take a Tip From Nike and 'Just Do It'

- By IRWIN STELZER



"There is a tide in the affairs of men.

Which, taken at the flood, leads on to fortune;

Omitted, all the voyage of their life

Is bound in shallows and in miseries."

So spoke Brutus, urging action over inaction. Not a bad theme for the eurocracy in this new year.

A few things are clear. One is that the status quo is not sustainable: the markets won't have it. With the rating agencies calling even America's triple-A rating into question, not all the euro-zone summit meetings, of which there have been many and will be many more, can persuade lenders that it is a good idea to make capital available to Greece, or Portugal, or Ireland on terms that will not stifle growth in those countries andacerbate their downward spiral.



Associated Press

Hungary's Viktor Orbán wants 'fiscal unity,' but won't adopt the euro.

Another hard-learned lesson is that all the steps taken by Brussels have not created a fire-wall. The flames that consumed Greek sovereign debt have already burned through Ireland and are licking at the gates of Portugal. Only disciples of Rosy Scenario believe they can be contained, rather than moving on to consume Spain, government-less Belgium, and perhaps even Italy. International markets do not respect national boundaries, only facts.

Finally, we know that neither the economic nor the political/administrative architecture of the euro zone is capable of dousing the flames. The politicians and the administrators cannot move with the speed of the markets many of them just do not understand. And the tools available to those willing to act quickly are clearly of insufficient force to douse the flames.

Certain aspects of the resulting situation border on the comic—if your taste runs to dark humor. Japan, with a debt-to-GDP ratio crowding 200%, exceeded only by Zimbabwe, has agreed to buy 20% of the euro zone's first bond issue. A nation over its head in debt will be lending to a group of nations that would never, ever, allow itself to get in Japan's fiscal condition.

Here's another chuckle. The current president of the EU, Hungary's Prime Minister Viktor Orbán, has called for "fiscal unity" to save the euro. "The euro must be defended or uncertainty about the EU will be widespread," adds Mr. Orbán." But Hungary has not adopted the euro. Mr. Orbán says "it is better not to be in," and rejects the austerity measures being adopted by euro-zone members as inapplicable to EU members that use their own currencies, most especially Hungary.

Then there is the outbreak of Anglophilia in France. French Prime Minister François Fillon, whose wife is from Wales, now wishes Winston Churchill had been French, endorses Churchill's World War II decision to sink the French fleet at Oran, and professes a love for pubs. Oh yes, he also wants Britain to become more deeply integrated into Europe and to help the euro to survive. Lest the wooing stop at the ministerial level, President Nicolas Sarkozy now concedes, "Britain is one of the major powers of this world. If it left the

EU, the EU would be left much weaker and I do not believe Great Britain would have much to gain." But a little to gain, non? In any event, British Prime Minister David Cameron has not completely submitted to the sweet nothings being whispered in his ear, although he is honoring the predecessor government's commitment to bear 13.5% of any losses should a country receiving funds under a €60 billion (\$80.3 billion) stability mechanism default. Only a little pregnant.

Finally, we have China. It has bought Spanish and Portuguese bonds to the estimated tune of \$7.5 billion and \$5 billion, respectively, leading euro-zone spokesmen to believe, or say they believe, that the sovereign debt of stricken euro-zone countries is marketable at interest rates that are sustainable. It isn't. By investing a relatively small sum in high-yielding debt that is guaranteed by the European Central Bank, China has accomplished at least three objectives. It has helped halt the decline in the euro, which was threatening the competitiveness of its products in the EU, its largest export market. It has sent a signal to the U.S. that it has somewhere other than treasuries in which it is willing to invest. And it persuaded EU countries to call for an end to the embargo on arms sales to China. China, with a per capita GDP less than one-third that of Portugal, is lending Portugal some of the money it has accumulated by manipulating its currency, subsidizing its exports and using cash to win favors for its military rather than to improve the lives of its people.

Fortunately for the future of the euro, some truths are now self-evident. German Chancellor Angela Merkel knows that she will have to swallow hard, and join the bailout brigade. France knows that in order to give Ms. Merkel the political cover she needs to bring her reluctant voters along, it will have to agree that private creditors absorb some of the losses, rather than leave taxpayers holding the bag. Euro-zone politicians know that they will have to increase funds available for bailouts, deploy those resources before any nation approaches the financial brink, erect procedures to increase Brussels scrutiny and approval of individual nations' budgets, and try, really try, to speak with one voice to investors. They know, too, that very soon they will have to organize restructurings of the sovereign debt of Greece and Ireland.

Now, if the leaders of the euro zone would drop their slogan, "United in diversity," and substitute the Nike motto, "Just do it," they might prevent further contagion.

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