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Default, Get Thee From My Euroland House

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How do I save thee? Let me count the ways. As euro-zone policy-maker-in-chief, I can force you to sell off some of your assets. But in the absence of a land registry you don't have clear title to those assets, which might make potential buyers squeamish. Worse still, your trade unions might be upset, and riot or be unwilling to work efficiently for a private-sector buyer.

Besides, you only want to sell minority interests, and who wants to partner with a government that has such novel methods of keeping its books? Anyhow, asset sales cannot be arranged in time to get you the cash you need quickly enough.



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Luxembourg Prime Minister Jean-Claude Juncker, who is president of the European finance ministers group.

I might once again pass the collection plate among my friends. But they seem reluctant to contribute again, especially since Greece's opposition New Democracy party has announced it will not support any new spending cuts, and it is clear to the richer countries that this

is not the last time I would be asking them to be generous. After all, they are elected politicians, and their taxpayers are not happy picking up the bill for your past profligacy, as German Chancellor Angela Merkel and Finland's politicians have already discovered.

Or I might pretend that failure to repay your debts in full and on time is not a default. I am, after all, ingenious enough with language to have found words that interpret the clear provisions in the Lisbon Treaty prohibiting fiscal transfers as inapplicable to recent, er, fiscal transfers.

There is reprofiling, a form of "soft restructuring" that encourages creditors to "volunteer" to wait longer to get their money back. But the rating agencies think a rose by any other name is still a rose, and the European Central Bank says it would stop purchasing your bonds and cut off the flow of funds to your banks, forcing them to shrink their balance sheets, driving your country into a deeper recession. Indeed, the ECB has announced that it will make life harder for you by raising interest rates.

After all, if you were the head of the ECB would you rather antagonize Germany by failing to respond to possible overheating in Europe's largest economy, or make life uncomfortable for a few tiny depressed economies that can't very much affect Europe's overall economic performance?

Perhaps all I can do, to borrow further from Elizabeth Barrett Browning, is love thee better after debt. Default, wipe out your debts, get thee from my euroland house, and start life anew.

Unfortunately, that has consequences not only for Greece, but for the entire euro zone and perhaps even for the entire European Project. It doesn't take a beady-eyed bean counter to see that Portugal will soon follow Greece, or that Ireland, its public debt forecast by the International Monetary Fund to hit 120% of GDP in 2013, might follow soon after, unless its exporters can offset the drop in domestic demand.

Nor does it take a high-powered political analyst to see that the euro-zone members are incapable of devising a long-term solution to the problem of the three countries they have so far decided to bail out.

Indeed, euroland's policy makers might not even be capable of devising short-term stop-gap measures to give the overly indebted countries a bit of breathing space so that they might, only might, find a path that leads away from the insolvency road down which they are headed.

Equally important, the involvement of former IMF head Dominique Strauss-Kahn with U.S. law enforcement agencies has removed a supporter of efforts to save the threatened trio. Jean-Claude Juncker, head of the group of eurozone finance ministers, his credibility dented by denying the existence of an emergency meeting he had convened, fears that if the current review of the bailout program shows insufficient progress, the IMF will zip its wallet, increasing the burden Germany and other countries are being asked to bear.

And if the leading candidate for DSK's job, French Finance Minister Christine Lagarde, does get her wish to succeed him and to return to America, she will be hard-pressed to be generous to the periphery countries after campaigning on a platform that included a pledge not to give special consideration to Europe's problems.

In short, the fates of Greece, Portugal and (probably) Ireland are sealed. One way or another, they will default. Which has turned attention to Spain and Italy, both due to test the bond markets this week.

Recent elections indicate that Spain's voters are unlikely to support the sort of austerity program that has thrown its previous "beneficiaries" into deep recessions. The beating Prime Minister José Luis Rodríguez Zapatero took at the polls has alerted markets to a possible voter revolution against any austerity measures. That's why interest rates on Spanish bonds rose sharply after the elections.

Italy, meanwhile, seems to be more than unusually ungovernable: Prime Minister Silvio Berlusconi is on the way out, to elegant retirement or uncomfortable accommodation, but no successor has established himself with voters. Political uncertainty combined with low or no growth has induced Standard & Poor's to lower Italy's credit outlook from "stable" to "negative."

All of which leaves the euro-zone policy makers with so few alternatives that they might be forced to do what is clearly needed. First, strengthen the banks in these threatened countries by requiring them to raise capital (Spain is doing some of this) so that default on the sovereign debt that is on their balance sheets does not bring them down. Then arrange orderly defaults, so that economic growth can resume. Or free the Indebted Three to leave the euro zone in peace.