Brussels Grasps While Eurozone Gasps

"I believe that the debt crisis affecting Spain, and the euro zone in general, has passed," Spain's Prime Minister José Luis Rodriguez Zapatero said in an interview published in the Wall Street Journal on September 22.

After meetings with U.S. financial institutions and investors, the Spanish Prime Minister said his message is that "confidence has been restored" in the Spanish economy. According to the *Journal*:

> Mr. Zapatero reiterated his government's commitment to economic reform and fiscal austerity, including plans to cut the country's budget gap to 6 percent next year and to 3 percent in 2011. The gap is forecast to be 9.3 percent in 2010.

Spain aims to cut spending at its ministries by 15 percent to 16 percent next year, and plans to submit its 2011 budget proposal to Parliament in coming days.

"This is excellent news," said Barcelona-based economist Edward Hugh in his September 27 blog, "but it comes with just one proviso, and that is that despite all such reassurances most financial market participants seem to be far from convinced that he is right."

In fact, few observers expect Zapatero's socialist government to carry through on the pledge to cut government spending. Edward Hugh points out:

> Yet, despite all those nice words we hear from him, one of the things that is worrying investors right now is the real depth of Mr. Zapatero's commitment to reducing the deficit as planned, especially after he unexpectedly stated on August 10 that in his opinion some of the planned infrastructure spending cuts could be reversed, while on September 10 he reiterated the point, saying that lower borrowing costs may enable the government to "ease up" on some of the projected spending cuts.

On September 29, tens of thousands of labor union members took to the streets in Madrid, Barcelona, and, reportedly, in more than 80 additional Spanish cities and towns for the country's first general strike in eight years. The strikers caused disruptions in transportation and communications, as well as many retail businesses, with airline, bus, train, and metro services being delayed or canceled. Coordinated strikes were also held in other cities throughout Europe, one of the largest being a reported 100,000 protesters marching in Brussels, Belgium, seat of most of the governing institutions of the European Union.

The main strike activity has been most pronounced in those EU countries that international economists and bond analysts refer to as the PIIGS (Portugal, Italy, Ireland, Greece, Spain), an acronym that is especially apropos considering the habits of those countries' governments of porcine consumption and total disregard for the consequences of their unrestrained self-indulgence. After being bailed out from looming bankruptcy in May, the socialist government of Greek Prime Minister George Papandreou has been forced by his international creditors to take the austerity pledge. Likewise for the socialist coalition government of Prime Minister Jose Socrates in Portugal, which is considered by many economists to be only slightly less vulnerable to default than Greece. Whether or not they intend to honor their pledges and whether doing so would be sufficient to stave off the inevitable euro collapse predicted by Milton Friedman and other economists when the currency was launched in 1999, one thing is certain: If the labor strikes continue and the strikers are joined by pensioners angered over cuts to benefits, it will become increasingly difficult politically for the socialist governments to follow through with their promised fiscal reforms.

False Optimism From ECB

"I am confident that the positive underlying momentum is increasingly broader based and signals a self-sustaining recovery in the Euro area," said Yves Mersch, Luxembourg's representative at the governing council of the European Central Bank (ECB), in a speech that was widely reported on September 28. However, investors aren't buying it; ECB's pronouncements carry about as much credibility as the boilerplate utterances of optimism from officials at the Federal Reserve and the U.S. Treasury.

On the same day that the ECB's Mersch was telling world markets that the euro crisis is over, other economic observers were issuing an opposite — and more believable — take on the matter. The title of Felix Salmon's Reuters blog for September 28 could hardly send a more contradictory signal: "The European crisis gets quietly worse."

As Salmon sees it:

> Greece still seems certain to default sooner or later, and its bonds are trading at levels very near to those seen in May. Spain has improved a bit — but that tiny improvement seems to have been accompanied by a significant rise in complacency on the part of the government, so it's unlikely to last long. And both Ireland and Portugal have deteriorated significantly.

Ireland's debt is trading at worse levels than ever before, its economy is still in recession, and its banking system is a mess; in Portugal, the public deficit is likely to reach 9% of GDP this year, and the country's debt spreads are also looking distressingly similar to Greece circa April 2010.

In addition to the above-mentioned negatives, there is the looming likelihood that Spain will soon face a downgrade of one or two points for its top bond rating by Moody's Investors Service. Fitch Ratings and Standard & Poor's have already downgraded Spain's bonds. A reduction from Aaa to Aa1 in Moody's rating system would put it at the same level as the AA+ rating from Fitch, while a reduction of two points by Moody's to Aa2 would be equivalent to S&P's current AA rating for Spain. Although such arcane matters are not tracked by the average man on the street, they greatly impact him; a downgrade on creditworthiness means the government must pay more for the money it borrows to cover its deficits and service current debts. A downgrade will not inspire investor confidence or assist in Spain's economic recovery. To the contrary, it will confirm the belief held by many knowledgeable analysts and investors that Spain and the entire eurozone are going into meltdown mode.

Contrary to President Zapatero's assurances of a Spanish recovery, former IMF staff economist Desmond Lachman sees Spain's struggling economy as a critical hazard to a European and global economic recovery. "Spain poses a much greater threat to the long-term survival of the eurozone in its present form than does Greece," says Lachman in a September study for the American Enterprise Institute entitled, "Euro Will Unravel, And Soon." Lachman points out that Spain's economy "is five times larger than Greece's, while at around US $1 trillion, its sovereign debt is three times larger. In addition, the Spanish economy is burdened by an excessively high level of public- and private-sector external debt, which makes it vulnerable to the whims of the international capital market."

"Unlike the Greek case," Lachman notes, "the parlous state of the Spanish economy is not the result of years of government profligacy. Rather, it is the result of a massive housing boom, which over the past decade saw a trebling in Spanish home prices as well as an increase in its construction sector to a staggering 18 percent of the Spanish economy."

Likewise, Ireland is also struggling to recover from the collapse of its super-inflated real-estate market. So, what was the cause of the outsized housing-market bubbles in Ireland and Spain? Lachman rightly points to the "inappropriately low European Central Bank (ECB) interest rates," together with the ECB's "unduly easy credit conditions," as the factors that spawned the debacle.

Dr. Lachman points out that the combined sovereign debt of Portugal, Ireland, Greece, and Spain is around $2 trillion, with a major part of that debt sitting on the balance sheets of Europe's major commercial banks. And U.S. banks, in turn, have around $1.5 trillion in loans outstanding to Europe, thanks to policies of the Federal Reserve, which, like the ECB, has encouraged speculation and profligacy. Defaults by any of these PIIGS would endanger European and U.S. banking, once again triggering the "too big to fail" mantra and the call for taxpayers to bail out the banks yet again.

"Crisis" as "Opportunity"

Felix Salmon is one of those who see Europe's current financial crisis as a process that is leading to an unavoidable breakup of the eurozone. "In any crisis," he says in his previously cited September 28 blog piece, "there comes a point where it's easier to let things fall apart than it is to keep things together. Given how fractious the European project has always been, and given that the generation of politicians who staked their careers on the European Union has now completely retired from the scene, a breakup would seem to be an inevitability at this point. The only question is when it will happen, and who will go first."

The soundness of Salmon's logic notwithstanding, the ongoing eurozone fiasco is not just "any crisis," and the engineers most responsible for bringing it on have no intention of allowing their grand "European project" to fall apart. To the contrary, they see it as an "opportunity" to push for deeper and broader economic and political integration, not only throughout the eurozone, but globally as well. ECB President Jean-Claude Trichet, along with other central bankers and finance ministers most responsible for causing the economic crisis, has been busy calling for more powers and new "governance" authority to deal with the dire situation they themselves have created.

"The present crisis does not just offer us an opportunity to rebalance, it provides an obligation to rebalance these three intertwined domains of the global economy," Trichet said in a speech to the European Parliament in February 2009. In that address and similar speeches Trichet and fellow globalists have been trumpeting the crisis-as-opportunity and global governance themes. As noted by Alex Newman in his September 27 cover story for *The New American*, "Waking Up to a World Currency," IMF chief Dominique Strauss-Kahn told a high-level IMF gathering on May 11 that "crisis is an opportunity." Most especially, said Strauss-Kahn, it is an opportunity to launch "a new global currency issued by a global central bank, with robust governance and institutional features … independent of national currencies."

That Zapatero, who occupies one of the most critically important positions in the current eurozone crisis, is completely in tune with the globalists was evident from the previously mentioned *Wall Street Journal* article of September 22. As the *Journal* reported:

> One lesson learned from the market turbulence that hit the euro zone in recent months is that a single monetary policy isn't enough for the European Union, Mr. Zapatero said. "We require further convergence to boost competitiveness, and stronger principles to implement balanced economic and fiscal policies."

Zapatero's "convergence" boosting is an endorsement of the vast new financial regulatory powers being seized by the EU bureaucrats in the name of economic stability.

And Zapatero is not merely in favor of using the financial crisis for further convergence at the EU level, but at the global level as well. He is a vice president of the Socialist International, which has been formally calling for "world government" for many decades. His repeated appeals for "global governance" during his September 24, 2009 speech to the United Nations General Assembly further demonstrate his continued commitment to this goal. It was also the theme of his speech, entitled "The New Economic Order and the Millennium Development Goals," to Columbia University's World Leaders Forum on September 21, 2010, immediately following a "working breakfast" Zapatero shared with billionaire speculator George Soros, Citigroup's John Havens, David Solomon of Goldman Sachs, and other avatars of the globalist set who are pushing for a global central bank, a global currency — and global government.

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