Europe’s Latest Attempt to Save the Euro Long on Rhetoric, Short on Promise

Well, actually, the other choice, according to the powers that be, was continental and global financial ruin. “Merkel and Sarkozy have been clear — back the plan or face catastrophe. It is a simple as that,” wrote CNN anchor Richard Quest. “The unfortunate point, often overlooked, is that the eurozone countries really have little choice. The euro doesn't work as currently constituted (it never has). They either change it or the project will collapse.” And a collapse of the eurozone would probably reverberate worldwide, possibly leading to a financial panic that would dwarf the 2008 debacle.

Cowed into submission, the eurozone countries feverishly agreed to subject their fiscal policies to international supervision, with the EU empowered to impose fines and sanctions for failure to keep budget deficits essentially at zero and other transgressions. The European Stability Mechanism (ESM), a large permanent bailout fund planned to come into force in 2013, was moved up to July 2012, with total funding of 500 billion euros. EU countries will provide up to 200 billion euros in loans to the IMF, with eurozone countries providing 150 billion euros of the total sum.

All of the foregoing will need to be formalized in a treaty that will take months to negotiate, but investors and Eurocrats are optimistic that they’ll get it right this time. Of the entire European Union, only Great Britain refused to go along with the plan, citing concerns over loss of fiscal sovereignty. “What is on offer isn’t in Britain’s interests, so I didn't agree to it,” British Prime Minister David Cameron said tartly.

But critics of the deal are already claiming that the eurozone will continue to decline unless the European Central Bank (ECB) is given full powers as “lender of last resort” that other central banks, such as the U.S. Federal Reserve, enjoy. That is, the ECB needs to have the power to print unlimited quantities of euros and to purchase unlimited amounts of sovereign debt just as the Fed and its counterparts in Canada, Britain, and elsewhere have been doing for generations, and with reckless abandon since the onset of the Great Recession. Up until now, the ECB has been authorized to bail out banks but not governments. And that’s unlikely to change anytime soon, with Germany particularly reluctant to authorize the ECB to print money, given its experience with hyperinflation during the Weimar period prior to the rise of Hitler’s Third Reich. As London economist Graeme Leach told CNN Money, “unless the ECB begins to operate as a sovereign lender of last resort function, with massive purchases of eurozone public debt, the inexorable logic is that the eurozone will break up.” And as Carl Weinberg, chief economist at High Frequency Economics, pointed out, “all of the harebrained schemes invented so far to resolve the crisis in euroland remain half thought out, unfunded and unimplemented … and therefore, still harebrained.”

We'll agree with Weinberg on that one, and take it one step further: *Any* scheme to solve a major economic crisis that does not contemplate shrinking the size and cost of government, and amplifying individual liberty into the bargain, is doomed to failure. The only thing that could possibly be accomplished by fully harmonizing the fiscal policies of eurozone nations and freeing up the ECB to inflate at will is a more streamlined road to financial collapse. What is needed in Europe (as well as the United States) is the political will to make deep cuts in government spending — cuts accompanied by deep reductions in the actual size of government. Suffocating regulations choking the free market must be jettisoned, and the gold standard restored to put the brakes on inflationism.

This is what should happen; were the nations of Europe to do this, independently or concertedly, most of Europe's financial bugbears would soon be banished. Investment would pour back into Europe, and towering national debts would be cut down to size.

But given the political realities in Europe and that continent's seemingly incurable addiction to socialism, what is likely to be the real-world outcome? The latest agreement (which, be it remembered, is not yet a treaty but merely rhetoric) will quickly founder on the shoals of popular and sovereign discontent. Politicians n Germany, Italy, Spain, and elsewhere, along with their constituents, will be hard-pressed to discern any advantage in submitting their entire budgetary and taxation regimes to supranational scrutiny. Taxpayers in frugal nations will rebel against having to continue to bail out the deadbeats. In the end, sooner rather than later, the eurozone will unravel completely. The only question remaining is whether it will end suddenly, with significant financial disruption around the globe, or whether it will be given a decent burial. Given the hubris of European leaders, the former outcome appears far more likely.