Forbes: United States of Europe Coming Soon

A United States of Europe — minus recalcitrant Great Britain — is nearly upon us; thus saith Forbes magazine. “The euro, in its old form, has fallen into crisis and the price European countries have to pay is a large loss of sovereignty,” writes Clem Chambers (left) in the Establishment conservative magazine. Chambers continues:

> Nationalists would consider this disastrous. In reality, there are not so many nationalists in Europe these days and many countries, and their populations, consider themselves European and see little problem with further integration.

Chambers is confident that zeal to maintain the eurozone will overwhelm nationalist sentiments. As a result of the current financial crisis, political power in Europe will migrate to Brussels, stripping eurozone members of their remaining economic sovereignty:

> What is set to happen is that the European super state will hold the cheque book of euro member countries; or at least be able to snap it shut should any one country wish to run away with its local budget.
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> Money is power and once ultimate budget power is gone, political power will subsequently be drawn into the federal centre.

Chambers is spot-on in identifying the causes of the ongoing crisis:

> A decade of low interest rates has allowed states in the developed world to build up titanic debts. Europe, with its socialized model, has bloated to such a degree that the world demands higher interest rates to support its debt levels than most of Europe can afford to pay.
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> Due to these countries sharing a single currency they cannot adjust their currency through relation to cope. They cannot “print” and the ECB is bound by charter and German ire from doing so on their behalf.

Chambers adds that only with German acquiescence — meaning in all probability German control over its operations — would the European Central Bank ever be permitted to do as other central banks do: namely, inflate the money supply to “evaporate [Europe’s] mountain of debt.”

He accuses Great Britain of pettiness in opposing the new drive toward European financial unity; it seems that there is something untoward in resisting a European continent under effective German control via the ECB and the proposed new fiscal union.

Should the proposed union be brought into being in the next few months, Chambers sees the road to a completely integrated Europe as almost inevitable. The main potential obstacle will be international investors:

> Ultimately the market will decide on the lead up to the spring agreement. The sovereign bond yields of Europe will ebb and flow and if the market flatly refuses to fund euro governments, whatever the politicians agree, then the Euro will break up and Europe will go back to the way it was in 1990s. If the markets will lend to Spain, Italy and Portugal at around 5% then a new era of the United States of Europe beckons.

So it all comes down to bond markets. Unfortunately for the One Europe crowd, the global markets are too heavily laden with problems already for bond investors to be in a charitable mood. It’s interesting to note that Chambers, who is CEO of a leading European financial web site, does not seem to believe that the breakup of the euro would be the end of the world as we know it. As something of a financial insider himself, he is well aware that markets are already preparing for and hedging against the euro’s demise. He knows that, to the extent that it is allowed to operate, the free market has a rational way of pricing in failures, defaults, and even natural disasters, which governments in their hubris are ultimately powerless against. And Chambers’ gauzy One Europe optimism notwithstanding, the eurozone, hamstrung by bureaucracy and founded on faulty assumptions, is likely about to be the latest casualty of hard economic facts.