Is Belgium the Next Domino?

The dominoes in Europe are falling — at least that is one interpretation of the latest Standard & Poor's outlook on the government bonds of Belgium. The ratio of debt to GDP in a European nation that was a founding member of the European Common Market and whose capital, Brussels, is the home of the European Union headquarters, NATO headquarters, and is in many ways the symbolic "center" of unified Europe is almost 100 percent. Which means that if the entire wealth of the nation were devoted to paying the national debt for an entire year, it could not do so (an analogy for consumers might be that if the family's credit card debt was greater than the entire income of the family for one year.)

In addition, Belgian politicians have been unable to form a stable government since elections in June 2010. In the case of Belgium, the unraveling of confidence in the financial affairs of the nation, which inevitably leads to a swirl of blame and of suspicion is compounded by another problem: The Belgium nation, which is a forced combination of Flemish-speaking Belgians, who feel more naturally Dutch, and Walloon speaking Belgians, who feel more naturally French, is — like Czechoslovakia and Yugoslavia — an artificial nation in many respects.

Such extreme cultural diversity can work, *if* there is a strong tradition of federalism and local governments are robust. Switzerland, which has four national languages, is proof of that. Yet Swiss tradition, despite being demonstrably successful in preserving freedom, defying invasion, maintaining peace, and implementing prudent state finances, is incapable of stemming a certain political drift. The whole drift of its politics is toward "collaboration" and "internationalism," themes that seduce gullible voters, who believe that in all things, political control included, "bigger is better." But the artificial cobbling together of peoples creates empires of internal tension, rather than genuine nations.

Germany, asked to shoulder much of the burden of collapsing financial systems in Greece, Ireland, and Portugal, can only resent this situation over time. Spain and Italy are both considered on the bubble of nations that may also need help to prevent financial collapse. The list of troubled nations, if those are included, is beginning more and more to resemble the whole of Western and Southern Europe: Greece, Ireland, Iceland, Portugal, Belgium, Spain, and Italy. As confidence drops, the rate of interest on bonds issued by these nations will rise (and, in many cases, that rate has already risen.) That creates a spiral downward for these nations as more tax revenue or deeper cuts in government pending become the only methods of paying the higher rates of debt interest.

Inevitably, and pretty quickly in most cases, raising taxes simply ceases to be an option. Tax increases reduce economic activity that leads to increasingly lower levels of revenue for the government. Also, as the problems spiral down, external help becomes harder and harder to obtain. Will there be a "bailout" of Belgium? Probably. Will that solve the fundamental problems of massive government debt? No, of course not. Economic insecurity will lead to political insecurity — governments in Ireland and in Belgium, once thought not “problem” states, are teetering on the edge politically — and that will mean either a reduction of government to its proper, small, narrow place in life or it will mean the “man on horseback” may be just around the corner.