Italy and Ireland in Free-fall

Italy, whose national debt is second only to that of Greece in the Eurozone as a percentage of GDP, was long assumed to be too big to fail. The fact that Italy's more prudent lending practices have prevented a major real estate bubble was faint reassurance that somehow Italy would be immune to financial contagion.

But with a growing rift between embattled Italian Premier Silvio Berlusconi and his deficit-trimming Finance Minister Giulio Tremonti, investors are on edge that an American-style deadlock over government finances will push Italy over the edge. In late May, Berlusconi's ruling bloc was devastated in local elections across the country, raising the possibility that Berlusconi may be ousted before he can complete his program of economic reforms. According to *Business Week's* Jeffery Donovan, those and other electoral setbacks have driven Italy into a political crisis that is weighing heavily on markets:

> The [electoral] defeats sparked bickering in the ruling coalition. They also raised fresh criticism of Tremonti, whose fiscal rigor has never been popular and who is blamed by many for choking the euro zone's third-largest economy. Tensions spiked after Tremonti was captured on video calling a fellow minister "a moron" and Berlusconi told *la Repubblica* newspaper that Tremonti "isn't a team player."

Italy's outlook has already been lowered this year from stable to negative by Standard and Poor's, and Moody's may soon follow suit.

On July 4, yields on Italian 10-year government bonds began to soar, ultimately settling above the dangerous level of 5.7 percent. It would take very little added uncertainty to push the yields to unsustainable levels, just as Greece, Portugal, and Ireland have experienced.

Meanwhile, things have gone from bad to worse for Ireland, whose credit rating was lowered this week by Moody's to junk bond status. Yield on Irish bonds soared to record levels in reaction, with 10-year bonds exceeding 14 percent. As one bond trader in Dublin said, "Until they sort something out in Europe, yields are just going to keep going up." Meanwhile, it is almost universally expected that Ireland will require a second bailout but — as with Greece — a second bailout will only make matters worse in the long term.

While EU authorities are finally painfully admitting that a Greek default of some type is inevitable, no one is yet willing to acknowledge the larger truth, that the euro — and most of the economies that use it

— is doomed. What we are witnessing is nothing less than the epochal decline of Western Europe, where the ultimate economic, political, and social toll is likely to require generations to erase — if it ever is. And all of it is a consequence of the West's poisonous embrace of fiat money and the gargantuan indebtedness that it produces, coupled with the hubris of a failed European superstate.