

Merkel's Savage Blitz through Euroland: The German Chancellor pushes the Eurozone closer and closer to the Cliff.

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Angela Merkel has let a minor brush-fire on the periphery turn into a raging inferno that's sweeping across the continent. Absent Berlin's fumbling diplomatic effort and its ferocious attachment to Hooverian economics, the Greek matter would have been over by now. Instead, the fire continues to burn while the German Chancellor pushes the eurozone closer and closer to the cliff. And what for; to prove that prodigal spending by the member states (Greece) mustn't go unpunished? Is that what this is all about? Is Merkel really willing to break up the EU just to prove her point and to accommodate her towering sense of self righteousness?

There is a fix for the EU's problems, but it will require cooperation, vision and a supra-national government institution capable of implementing fiscal policy. It's all very doable, but not in an atmosphere that is charged with acrimony and divisiveness. As the most powerful member, Germany has a special role to play in maintaining cohesion; it's the glue that holds the EU together. Unfortunately, Merkel and Co. appear to be less interested in building bridges than settling on new ways to punish nations that stray from the 3%-maximum deficit rule. The German Chancellor wants to make sure that countries that exceed the limits will be stripped of E.U. subsidies and voting rights. The Austrian Finance Minister summarized the policy perfectly when he opined, "Countries that are lax with budget planning must be able to be rapped on the knuckles."

None of the countries in the Euro-project joined because they wanted to be lectured by arrogant German/Austrian bureaucrats whose Stone Age grasp of economics has thrust the 16-state confederation to the brink of disaster. Besides, the markets have already voted thumbs down on Merkel's "hair shirts and thin gruel" remedy. They want stimulus, growth and liquidity; none of which are provided in "Frau Nein's" plan for economic contraction.

It's worth reviewing some of the details of the so-called "Greek bailout" to get a handle on how debilitating the EU's austerity measures really are. Here's an excerpt from an article by Polyvios Petropoulos, former economics professor in the US, which outlines some of the harshest cutbacks:

"First of all, the IMF/EU program... is no "help" or "aid" or "rescue", or even "bailout", as the IMF, the EU and various commentators are saying. It consists of a series of loans, in fact non-concessional loans...with unprecedented draconian conditionality and the normal interest rate which is charged by the IMF in all cases. As to the EU portion, it is given at an even higher interest rate... Paying 5-6% interest rate, when the country's GDP growth is -4%

p.a., clearly makes the country's debt problem unsustainable, as has been shown by several economists....

Second, it was not offered to help the "Greek people". It was offered to help the bondholders, the bankers, the euro, and to avoid contagion with its nasty consequences for the EU and the global economy...

Third, there is absolutely no "protection for the most vulnerable", as one would have expected from the "socialist" (or "ex-socialist"?) head of the IMF, or the "socialist" Greek government for that matter, and this claim is made several times in both of the documents mentioned above. The opposite is true. A mere listing of some of the austerity measures will suffice to prove my assertion:

-A meager so-called "social solidarity allowance" for destitute people was abolished, despite assurances in the IMF Q&A session that "the targeting of social expenditures will be revised to strengthen the social safety net for the most vulnerable".

-Despite assurances in the Q&A session that "minimum pensions and family support instruments will not be cut", all public and private-sector pensions and allowances have been cut, all the way down to meager pensions of 450, 500, 550 euros per month etc., which are well below the poverty line (making it impossible for old pensioners to survive)...

-Reduction of the salaries of even the lowest-paid civil servants....

-Freezing of the lowest salaries and pensions for the next few years, although inflation is already galloping above 4%...

-VAT (value added tax), which was much higher in Greece than in Portugal and Spain, was raised by about 20% on all goods, including basic foodstuffs, which make up the majority of poor people's purchases.

-Sales taxes were raised on -supposedly- luxury goods...such as gasoline (+50%), cigarettes, beer, wine etc....

To be fair... the reduction of the pitiful pensions of the private sector was not imposed by the IMF officials in Athens, but by the EU officials." ("Truths and myths about the "Greek Crisis", Polyvios Petropoulos, Credit Writedowns)

So the debts of the bankers and speculators are being hoisted onto the backs of the working poor and aged. Where have we heard that before?

Greece's deficits are not the problem anyway. The real problem is the underwater EU banks (that hold Greek debt) that will capsize if Greece doesn't get a lifeline. This is from Reuters:

"European banks have an estimated \$2.8 trillion exposure to Greece, Spain, Portugal, Ireland and Italy — debt-heavy euro zone nations that have worried investors. These banks may be hit with losses ranging from \$350 billion to \$700 billion, Neela Gollapudi, a Citigroup interest rate strategist wrote....

"The EU stabilization package helps towards refinancing of sovereign debt, but does not address private sector debt," Gollapudi said." (Reuters, "US 3-month Libor seen rising above

1 pct-Citigroup”)

So Merkel can stop pretending that the bailout is an act of selfless charity. No one is buying it. Nor are they confused about the \$1 trillion pile of euros that the EU gathered together to ward-off speculators. Short-sellers saw through that sham in less than 24 hours and sent the markets plunging again. Do the Euro leaders really think they're smart enough to pull the wool over Wall Street's eyes? Wall Street invented fraud; they're not about to be duped by prissy politicians in tweed suits.

Will someone in the EU at least show that they understand the basic problem? European integration is more than just a common currency and a Treaty. It requires politics, governance and unification. Currency is not politics and treaties are no substitute for government institutions. The charade has gone as far as it can go without more concessions from the individual states to establish a central authority to implement fiscal policy. The Merkel view is that Germany should maintain its sovereign independence—along with its gigantic surpluses—while reaping the benefits of a currency that serves its own economic interests. But the flaws in that plan have already been exposed. The smaller non-export dependent countries (aka—Greece, Portugal, Spain) need fiscal accommodation or be they'll be forced from the Union. It's not a matter of profligate Greek spending versus German thriftiness. It's a practical matter of economic reality.

So, how can the EU get ahead of the markets before the euro vaporizes and the economy is pushed back into recession?

First, Brussels needs to change its counterproductive, punitive tone with Athens and strengthen friendly relations. No more condescending talk of “knuckle rapping”, please. Greece needs to restructure its debt (everyone agrees on this point) while the ECB initiates a quantitative easing program (purchasing Greek corporate and government debt) to increase liquidity so Greece can grow its way out of the slump. That means that German and French banks (and bondholders) will have to take a haircut which could lead to bankruptcy. If that's the case, then the ECB will have to establish a lending facility to provide a (temporary) backstop to get troubled financial institutions through the rough patch while regulators check to see if they are sufficiently capitalized to stay in business.

The markets are jittery because the proposed remedies are all deflationary and will lead unavoidably to recession. So the EU needs to enact alternative policies that will increase employment, stimulate demand and restore confidence. Here are a few recommendations:

1-The EU needs to show that it's taking steps to become a viable political union with supra-national fiscal policymaking authority.

2-The ECB needs to be willing to spend whatever is needed to avert another meltdown.

3-Policies should be put in place for the orderly withdrawal of countries that don't fit within the EU's economic schema.

4-Regulations on shadow banking, derivatives, and repo transactions should be drawn up to avoid another market crash.

5-The EU should develop a strategy for providing long-term fiscal stimulus throughout the eurozone until unemployment falls, aggregate demand picks up, and household balance

sheets show signs of improvement.

The EU's problems can be fixed and the market's can be calmed. It's just a question of solidarity, vision and a lot of money; all of which are available with the right leadership.

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