

## [Saving the European Union](#)

Siena, July 16, 2012 – The European Union is at risk of being destroyed by the euro. The credit crisis founded upon swindle by Wall Street, and re-tailed to Europe's banks, has created divisions in Europe which are undermining what was supposed to be mutual confidence and solidarity among the seventeen members of the Eurozone.

"Making Europe Work" is an urgent need in the present crisis, and was the subject last weekend of the fifth conference on EU reform held in Siena under the joint sponsorship of Armand Clesse of the Luxembourg Institute for European and International Studies and the Nobel laureate Robert Mundell at the latter's Palazzo Mundell near Siena. It was not a cheerful affair, ending after two days' discussion in an even divide between those who think the EU will survive the euro crisis and those who think it will not. This, note, in an academic and professional group disposed to support the European unity project.

The credit crisis provoked by easy international bank credit and inflationary market speculation -- notably including the myth of self-liquidating mortgages sold to credulous homeowners, with these loans segmented and laundered so as to become nonnegotiable securities -- created bankruptcy and potential fiscal ruin across the Eurozone, as it did in American communities, impoverishing public institutions as well as domestic creditors.

Evidence of other forms of market chicanery or crime (HSBC, Barclays, Libor manipulation, etc.) in high banking circles continues to contribute to a public climate in Europe and the United States of profound mistrust of the financial elites responsible for what has happened to the citizens of the European Monetary Union, and to ordinary American bank clients and investors.

The Euro is a rootless currency in that it was issued by fiat to replace the national currencies of the members of the monetary union, and to conduct a fiscal policy that "maintains price stability." This overriding mandate reflects the German obsession with inflation, because of its own national experience in the 1920s, and the consequent inheritance and practices of the German Bundesbank.

Those who have loaned to the Eurozone now want assurance that they will get their money back, particularly those who loaned to Greece, Ireland and Portugal, the three economies most in debt. Doubt arises from Germany's refusal to permit a consolidation of euro-debt into European bonds, or a European Central Bank assumption of the role of lender of last resort to the zone, and effectively the ultimate guarantor of all euro debt.

Germany refuses because it fears, not without reason, that in the end, should all go badly, Germany would wind up holding all of the bad debt.

Chancellor Angela Merkel has stated her unshakeable determination that such will not happen. She demands that the debtor countries restore their economic balances through drastic measures cutting state expenditure, whatever the consequences for the country, and particularly for citizens reliant on state welfare. Germany says that if this solution is impossible, then Greece --and probably others -- may have to quit the Eurozone.

The consequences could be politically dramatic for Europe as a whole, with popular discredit of democratic governments and dictatorial nationalist parties taking power, repudiating foreign debt, imposing confiscatory tax policies, and possibly expelling foreign workers, immigrants and foreign residents.

Such a (minority) party already exists in Greece, and EU members Romania and Hungary – candidates for eventual Eurozone membership (if the common currency survives) -- are already under internal challenges to democratic norms to a degree that preoccupies the European Commission in Brussels and the European Parliament. These troubles are not directly economic in cause but contribute to the climate of developing political crisis.

There is an absurdity in this situation since solutions are apparent. One would be a Eurozone Keynesian policy of reflation, beneficial even to Germany, whose biggest industrial customer is the European single market.

The second, painful for Greece and its fellow-debtors, would be that one or all abandon the euro and reestablish their national currencies at a devalued rate of exchange to the euro. (Italy's Mario Monti – currently attacking Italy's debt problem -- recently asked German economists if they want to compete with innovative northern Italian products priced, for example, in a new lira worth 30 to 40 percent less than current Italian euro export prices.)

German stubbornness is easy to blame for the crisis, although the German position is comprehensible.

Harder to accept is that the EU states as a whole are incapable of stepping back from their rash and ideologically rigid experiment with the euro, from unwelcome constitutional experiments, and utopian projects for political federation (as Germany proposes), in order to save the existing achievements of European Union – which are, one must admit, pretty formidable – peace, reconstruction, integration of Eastern Europe, and until now generalized prosperity.

[www.williampfaff.com](http://www.williampfaff.com)

© Copyright 2012 by Tribune Media Services International. All Rights Reserved.