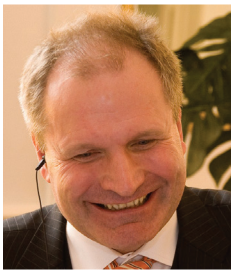

Can we predict Europe's future? Yes, we can!

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I often like to play a little thought experiment with some audiences. Let's try to imagine, I tell them, what historians will say about the European continent at the end of this century. Will they say that the eurozone failed? Will the European Union even exist? There are many who think not.

So, what might the historians of the future identify as the root cause of Europe's demise? Will they say that the rules and regulations that were implemented in our day in response to the economic crisis deepened the recession and worsened the situation? And will they recognize that the irresponsible behaviour of some members of the eurozone created the very instabilities that wreaked havoc on the other member states of the EU?

If the historians of the future are good, properly trained historians, they will turn their attention to our days – to the opening decade and a half of the 21st century – to find the causes of Europe's decline and fall. It is here, in our day, as a result of the decisions of our policy-makers, that we can find the reasons why Europe is well on the proverbial 'road to serfdom'.

It is true that Europe has usually been thought of having a sovereign debt crisis - and it has. But the origins of the euro disaster lie less with government profligacy than with excessive private borrowing. Let us consider the case of Greece to illuminate these issues.

A Greek tragedy

Greece did get into trouble because its government spent too much and collected too little in taxes - but the role Greece played in Europe is much more complex. Greek citizens were victims of a political elite, as well as strong unions that espoused big government ideas and strict business and labour market regulations.

The lack of competitiveness and corruption that resulted from this are the typical results of big government - often in collusion with big labour. Greek government workers and powerful labour unions both behaved as if money simply grew on trees!

But Greece was also made a scapegoat for the economic crisis. It is true that the Greek economy was in dire straits. However, in 2009, at the height of the financial crisis, the Greek crisis was used to divert attention from other, larger, looming issues. This was exactly the same time that big banks in Europe were on the edge of bankruptcy. Most, if not all, of the big European banks had received trillions of dollars in bailouts.

Indeed, it was the Federal Reserve Bank that saved Deutsche Bank. What would have happened had we known that Deutsche Bank had liquidity problems back in 2009? The answer is quite clear: the European Union would have collapsed within six months. And even Germany could have been bankrupt.

But then Greece entered the scene. It seemed an ideal candidate to divert attention from what was going on elsewhere in Europe, though in the long-run, it certainly offered no solution to the crisis.

Few actions taken

Incidentally, despite it being in the news so often, Greece has not been bailed out. It's true that trillions of dollars have been used - but not to save people or countries but big banks. Consequently, the money went to save those who created the crisis in the first place, with their irrational and high-risk lending practices. Since then, Greece has been on extended life support, like more and more countries in the eurozone.

Everything has just been delayed. But amid the imminent breakdowns and crack-ups, the end is already in sight. It will come slowly; but it is inevitable. Why? Simply because almost nothing has been done to actively address the lack of competitiveness of the major eurozone economies.

In other words, solving the inherent problems with the euro hasn't gone much beyond the formulation of a bailout system designed mainly for the European banking sector. Meanwhile, the urgent need for serious structural reforms has been completely neglected. We can see how far that's gotten us: not very far.

Ignoring Europe's diversity

Politicians are now demanding more control and supervision systems - things like a banking union - and have proposed trying to manage the continuing crisis with even more regulations. Politicians and policy-makers seem to ignore the very thing that gives Europe strength: its diversity. Instead, they seem obsessed by the thought of controlling Europe from a couple of desks in expensive offices in Brussels.

While an extraordinary large and complicated bureaucratic system composed of many nations continues to try to find a compromise solution that can level all the differences among its different members, their diverse histories and traditions of each single nation continues to be ignored. The top-down Brussels-centric approach is thus a wholly unrealistic approach to the problems of Europe.

Whither Europe?

We should have let all those big banks fail. Even if there had been a shock to the financial system we all would have by now come out stronger. I don't think it is an exaggeration to say that the euro is the most dysfunctional currency in the world. It has to die - and it will soon do so.

You cannot have a central bank that issues a currency without a treasury that issues the bonds. There is no federal treasury in the EU that issues bonds. Without the 'mutualization' of debt, you cannot have a common currency. And, eventually, the eurozone is going to break apart.

"... the future starts now!"

Once, in 2009 the Federal Reserve Bank saved the euro because its fall would have resulted in the disintegration of the European Union which, in turn, would have had significant consequences for the American economy. In a way, this was like trying to put out a fire in your neighbour's house to save your own house from catching fire.

But what about today? Will the Americans once again provide the bailout funds to help Europe? They have their own house fire to take care of now, which means Europeans need to take care of business for themselves by themselves for once. But what are they going to do? What can they do? The only thing they will likely continue doing is keep squeezing the economies and sectors of the eurozone tighter, tinkering with policies and imposing new regulations to protect the banking and financial system, while continuing to ignore the plight of the vast majority of hard-working Europeans.

That is why, a hundred years from now, when the historians look at the remains of Europe, they will likely say: *"Here was a continent and a peoples that were suffocated by their own leaders."* ■