Europe’s Finance Woes Widen

The sludge of spendthrift government is spreading across the continent of Europe. In Greece, public employees staged protests even though an actuarial analysis revealed that public employee pensions were unsustainable. In Portugal, politicians and ordinary people huffed about the machinations of Germans and Brits against Mediterranean countries. Ireland, once the Celtic Tiger, is now absorbing the impact of a European Union bailout, and the ownership of Irish public debt by British banks is a presumed impetus. Spain is on the lips of nearly all the financial experts looking at excessive public debt, and it has seemed only a matter of time before the whole Iberian peninsula was going to be rolled over to the intensive care ward of the European Union’s fiscal hospital.

Now the problem is growing, the number of European governments in trouble is climbing and the number of European governments that can help is shrinking. Italy, now, is beginning to look troubled. Italy was being watched closely, and the conclusion increasingly is that this nation — easily the largest European Union country to be facing a crisis — may need something like a bailout in the future. Now even Belgium, historically one of the more “responsible” countries on debt issues, may need help as well. The interest of public bonds issued by Italy has risen to 4.64 percent and that of Belgian bonds has risen to 3.97 percent.

Who is left to “help”? Germany is the major player, and already Chancellor Merkel is facing heavy political blows for helping to prop up the nations in trouble. France is significant, but Sarkozy is already facing a French population nearing public riots over a modest and needed rise in the retirement age. Britain remains (relatively) well off, but the reality is that these nations can only provide a certain amount of support for Greece, Ireland, Portugal, Spain, and Italy.

As confidence erodes in nations such as Italy, and the interest on the bonds creeps higher, the only alternatives are: (1) borrow more at even higher rates, (2) raise revenue by raising taxes, or (3) reduce the obligations of government. The first option is a spiral into deeper debt. The second option is a climb into higher tax rates with lower tax revenues over time. The third option is “politically” untenable (meaning that graying, spoiled citizens of these nations will not accept any sacrifice to balance public debt.

So — surprise! — the United States has been asked to help out the European Union, because if it collapses (so the central planners’ thinking goes), then the U.S. economy will go into a tailspin as well. It is a sobering thought that the dollar, which the Obama administration has been printing as quickly as the Treasury presses can roll out the money, faces scary inflation. America is actually the “responsible” nation left.

Markets, of course, correct false assumptions. When FDR decided to mushroom the National Debt and spend our nation into recovery, he numbed with a sort of heroin any needed changes which the market would require to bring our country back to normal growth. Are we going to be repeating the same mistakes, only on a global scale? It is beginning to look as if the answer is “Yes.”

Who will bail out America, when the dollar evaporates in the hot sun of hyperactive markets? No one has that answer.

Photo: People queue to enter a government job center in Madrid, May 28, 2010: AP Images