Eurozone Ministers Meet to Force Integration

One of the first items being discussed is putting in place the leveraging of the stability fund — otherwise known as the EFSF, or European Financial Stability Fund. At present, this fund holds some $600 billion in assets, much of which has already been invested in government bonds issued by the eurozone's weak sisters: Ireland, Greece, and Spain. The leveraging, through some opaque maneuvering, will then allow the fund to do some serious purchasing of enough of Italy's debt to solve two problems at the same time. One is to bring down interest rates to some level that Italy may be able, in the short run, to afford to pay. And the other is to give the new Italian technocrat, Mario Monti (who was appointed on November 12 to replace Prime Minister Silvio Berlusconi after he was forced out), enough time to implement even more severe austerity programs in order to meet eurozone guidelines.

That is the next item on the Brussels agenda: Just what are those guidelines, and who is going to enforce them, if necessary? According to Reuters, this would involve "deeper financial integration" among its members. The term "integration" is being increasingly used to disguise the erasing of national sovereignty and the installation of the final step toward a United Europe run by international bankers (such as Monti) and other unelected elites.

The *Wall Street Journal* called this item the "weighing of a new plan to accelerate the integration of their fiscal politics." The paper noted:

> Under the proposed plan, national governments would seal bilateral agreements that wouldn't take as long as a cumbersome change to European Union treaties….
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> The plan … would allow the eurozone to announce a speedy change to its governance. European authorities would gain tough new powers to enforce fiscal discipline in the 17 countries that make up the eurozone…. EU treaty changes could then follow at a later stage.

In simple English, what is being proposed is the EU granting itself additional powers by doing an end run around modifying existing treaties that would take too much time and might turn out badly. What is being proposed is an expansion of the Schengen Agreement originally signed in 1985 that eliminated passport controls among the signing nations. Buried in the rules that updated that agreement was a clause that allows those countries to engage in "enhanced cooperation" if just nine of the 17 eurozone countries agree, rather than having to put it to a vote for a unanimous treaty change by all 27 European Union members.

What is unclear is just what the new rules will be or how they might be enforced. And the clock is ticking for at least two reasons. There is a European Union summit scheduled for the weekend of December 9 and all eyes are watching to see what transpires. And the bond market is watching as well. It’s going to be close.

As explored in detail here and here, the financial markets are getting nervous and driving up interest rates and increasing the risk of major bank failures. Even if an agreement is completed in time, there is a very good chance it will be too little too late. For now the European Central Bank is resisting increasing pressure to buy up the sovereign debt of weak countries allegedly because it would violate its charter. Longtime observers would hold that such restraints were never a problem in the past and that the real reason the ECB is holding back is that large-scale purchases of deadbeat debt would only encourage more of the same behavior. This is well known as “moral hazard”: “Why should we behave in a fiscally prudent manner when we know that we’ll get bailed out anyway?”

Belgium, Italy, Spain, and France all have government debt auctions slated for next week and investors and bankers will be looking not only at how those auctions go but also what comes out of the December 9 meeting.

The rolling crisis of the eurozone is gathering momentum and is headed toward an inevitable resolution. Economist Gary North predicts that the final resolution will not be pretty either way: Either it will be the final “consolidation of the eurozone into an unconstitutional super-state,” or the ECB will give way to reality and buy up the bonds of failed governments, setting off an implosion in the banking system that could exceed the crisis of 2008.