Financial World Eyes Portugal

The outlook for the sale today of three- and nine-year bonds by the government of Portugal is still cloudy, but late-breaking news that Japan has committed to buy bonds from the European bailout fund and that the Portuguese deficit has actually declined in the face of self-imposed austerity measures may betoken a turnaround for Europe's southwesternmost country.

Portugal, once a leading European imperial power whose intrepid explorers discovered new trade routes to the Far East, has fallen on hard times as a humble cog in the eurozone machine. Her debt has soared as the global economic meltdown has made bloated government spending unsustainable. In recent weeks, Portugal — like Ireland and Greece before her — has come under pressure to accept a bailout from the EU and IMF in order to prevent the European sovereign debt crisis from spreading to larger countries in the eurozone, such as Portugal's neighbor Spain. Portugal has understandably balked at accepting international aid that would doubtless impose harsh new conditions and amount to a surrender of economic and fiscal independence to EU bureaucrats. Portuguese politicians have been denying that any such deal is in the works: "All the rumours on the IMF and on external assistance are speculation which does not help, which harms the interests of the country and aggravates market conditions," said Portugal's Prime Minister José Sócrates. The Portuguese Finance Minister and governor of the Bank of Portugal have issued similar statements, but one administrator at Portugal's central bank admitted that a bailout from the IMF or the European Stabilisation Fund was "probable." Whether Portugal can continue to resist the bailout siren song will depend in no small measure on the outcome of today's bond sale.

In the meantime, Belgium has been quietly descending into crisis. Without a government for more than 200 days because of electoral gridlock, Belgium's debt level is at more than 98 percent of the Belgian GDP, the third highest in the eurozone after Greece and Italy. Italy managed to sell a new bond issue Tuesday despite its fiscal woes, and Spain anxiously awaits the outcome of its own bond sale on Thursday.

Behind all the posturing is the reality that most of Europe is broke beyond any hope of redemption. Spain, Italy, Portugal, Belgium, Greece, Ireland, and a host of Eastern European countries are all desperately borrowing just to pay the interest on their astronomical national debts. At some point, one of those countries will default, and others will follow. Europe is reaping the consequences of decades of heedless deficit spending to finance lavish welfare statism, and the United States would do well do take a salutary lesson from the European debacle — before the imps of Big Government spending drag us down to fiscal ruin as well.

Photo: AP Images