Group of 20 Balks, Stalls and Dithers

The Group of 20 meeting in Mexico City over the weekend decided that the best course of action was inaction, putting off making any decisions on how to "rescue" the European Union from its financial and economic difficulties until next month at the earliest. The statement justifying kicking the can down the road for another month or so was breathtaking in its obfuscation: putting off any decisions, it said, "will provide an essential input in our ongoing consideration to mobilize resources…" This is how finance ministers and world economic experts explain that, after two days of meetings, the best thing to do was nothing at all.

There were great expectations before the meeting ended that something of substance would come out of it. The plan was not only to pave the way for the second bailout of Greece but for each of the G-20 members (including the U.S. and most of the other industrialized nations on the planet) to pony up additional taxpayer funds to the International Monetary Fund (IMF) which would then be used, at its discretion, to bail out over-indebted countries like Greece, Portugal, Spain, and others as they need them. Expectations were that commitments totaling $1 trillion would be made before the end of the meeting on Sunday.

Plans went awry when Germany's Chancellor Angela Merkel (above), responding to pressure from more sensible voices, said Germany would be unable to participate in any further assistance. This reluctance no doubt stems from the fact that the German parliament, the Bundestag, still hasn't approved the Greece bailout. So making a further commitment when the previous promise to Greece is still pending was the politically prudent thing for her to do.

British finance minister George Osborne didn't help matters any with his insistence that before Britain made any further commitments the Eurozone countries themselves had to step to the plate: "We are prepared to consider [adding additional] IMF resources but only once we see the color of the euro-zone money, and we have not seen the color of the euro-zone money."

Pressure on the IMF and the European Central Bank will continue to build as the economic situation in Europe continues to deteriorate. Using standard Keynesian policy, the best way to cure the patient is to prescribe more of what made the patient sick. And the patient is sick:

> In Spain the overall unemployment rate is 22 percent with unemployment between ages 16 and 24 at 51 percent.
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> In Greece one out of every five retail stores has been closed reflecting a recession there that is entering its fifth year. Last year the Greek economy shrank by 6 percent and it is projected to decline another 5 percent this year.
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> In Italy unemployment is 28 percent.

> The German economy went into recession in the last quarter of last year with no turnaround in sight.
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> Manufacturing activity in the whole Eurozone has fallen steadily over the last five months.

And the numbers continue to decline.

The fact that the Eurozone has not been torn asunder by such dithering and stalling over the inevitable additional damaging bailouts is a surprise to classical economists who have been predicting its failure for years. Republican presidential candidate Ron Paul reminded his readers that "people have forgotten that Europe functioned for centuries without a common currency." He added:

> The euro…was a purely fiat [paper-based] system…that allowed member governments to spend themselves into oblivion and expect that someone else would pick up the tab.

Instead of continuing the façade of considering carefully its alternatives, the Group of 20 needs to do less, not more. Simply by expanding the ability of the ESM and the International Monetary Fund (IMF) to loan more money to those who can't pay it back is no solution but will only, in Paul's words, "ensure that no correction will take place."

There is one benefit with the passage of time: it gives the banks that made those immoderate loans to the member nations the opportunity to prepare themselves for their eventual defaults. David Marsh, an observer of the European scene with MarketWatch, said that once new funds are eventually raised by recalcitrant contributors, "a large part of the [those funds]…will be directly channeled to private-sector investors. And a lot of demands and conditions placed on Greece [and others needing similar assistance]…will probably be unfulfillable. The longer this stand-off lasts, the more time the creditors have to ready themselves for potential default[s]…Everyone is playing for time."

Photo: German Chancellor Angela Merkel delivers her speech prior to the debate and the voting of the German Parliament Bundestag about a new Greek rescue package in Berlin, Germany, Feb. 27, 2012