EUROPE IN CRISIS: THE END IS, STILL, NOT IN SIGHT !

The exportation of a specific financial formula from one country to another does not, always, bear fruit.

In fact, without serious modifications to a proposed formula to be exported from one country to another, it rarely is importable, at all.

The prime reason for the numerous business failures of entrepreneurs in trying to import one specific modus operandi from one country to another is that there are numerous variables to the coefficient of the imported formula that are unique to one country, but are not clearly in evidence in another.

Nowhere is the above more poignant than in North America where many thousands of Chinese emigrants from Hongkong sought, what they thought, were greener pastures, especially in Ontario, Canada.

The thinking of these emigrants was that they could bring their expertise to their adopted country, a country that, like an apple, hanging from the highest bough of a tree, appeared to be ripe for the taking.

Today, many, if not most, of these emigrants rued their decisions to attempt to transfer their business formulae from Hongkong to Canada.

These ladies and gentlemen brought to Canada buckets of cash, all of that money, having been earned in legitimate, Hongkong enterprises over a period of many decades.

In Ontario, many of these newly settled, Chinese business people were of the mistaken opinion that they could follow the tried-and-true business formulae that had made them very wealthy in Hongkong.

When one Canadian business after another failed, it dawned on these Chinese entrepreneurs that something had gone awry.

But it was too late: Their hard-earned money had been depleted, very materially.

The problem was that these entrepreneurs did not take into account all of the many unique factors, prevalent in Canada, factors that did not exist in Hongkong when they were doing business and making themselves Hongkong-dollar, multi-millionaires.

That is the reason that, in certain residential areas of Toronto, many houses, purchased by these Chinese business people, stood empty for extended periods of time. The original Chinese owners, who had paid in cash for the houses, had speculated on the housing market of Toronto, not realising that the financial factors of the Toronto property market were vastly different from those of Hongkong.

When, in downtown Toronto, one noted a middle-aged, Chinese man, dressed in a Valentino suit, wearing Ferragamo shoes, playing his violin on a street corner, his violin case, being a receptacle for passersby to toss a few coins, one could not help but realise the plight of this once wealthy man, who had been reduced to begging for a living.

All of the above – which is very true, sadly – is, to a great extent, a synopsis of the problems, facing the eurozone today.

In The Beginning

In 1992, the world was informed of the drafting of the Maastricht Treaty.

This Treaty created what is, today, the **E**uropean **U**nion (**EU**). It, also, led to the creation of the single European currency: The euro.

Member states of the EU, in order to participate in the euro, had to meet strict criteria, which included, inter alia:

- Budgetary deficits of less than three percent of Gross Domestic Product as at the conclusion of the preceding fiscal year;
- A debt ratio of less than 60 percent of Gross Domestic Product;
- Low inflation; and,
- Interest rates, close to the average of the EU, but not more than 1.50 percentage points higher than the average of the three, best-performing (lowest inflation) member states of the EU.

It sounded good, initially, but it was, in retrospect on scanning the Treaty, the placement of some of the planks of the platform that led to the present crisis of the EU.

Originally, the leaders of Europe, engaged in trying to put together the concept of a single, common currency, throughout the EU, assumed that there would be a convergence of certain European economies, with the weakest ones, trying to emulate the German economic formula that appeared to have been spectacularly successful.

The German economic formula included relatively high inflation and higher workers' wages and greater spending by government and private enterprise.

Convergence or transmigration: What was the real intent of the plan?

Convergence of the weaker European economies in order to try to emulate the German economic formula never came to pass, and, today, it should be very evidence that it could never have materialised, at least, not to any great extent.

Today, one can realise the many fallacies that were prevalent in the thinking of those who helped to draft the Maastricht Treaty, dreaming as they must have done of catching that gold ring as they were about to pass it after one full circle on the European merry-go-round .

The leaders of the 17-member states of what are, today, known as the eurozone, continue to maintain that they can whip member states into line and cause them to adopt the European convergence concept.

The crux of the idea of the leaders of Europe, who helped to draft the Maastricht Treaty and the subsequent amendments that followed – the Treaties of Amsterdam, Nice and Lisbon – was that there must be an assurance that economic behaviours among the 17 member states were sufficiently similar to one another so as to permit the EU's euro policy to be sustained at what must be considered a *'reasonable cost'*.

But it never transpired that economic behaviours among the 17 member states was at a *'reasonable cost'*, at least, not to all, but only to the lucky few member states – Gemany in particular.

For such an idea to be workable, creditor states and debtor states must line up in their correct, mutual-agreeable positions in respect of public spending, common competitiveness, controls over inflation, and so on and so on.

The misalignment of the member states' economies that exist in today's world is not fully understood or, if it is understood, then *'mum's the word'* as far as today's leaders of Europe are concerned.

There exists in the eurozone, today, very material disequilibrum within the 17 nations that accept the concept of the single monetary policy, along with a common single exchange rate.

What has to happen if the euro is to be recognised as a widely acceptable and convenient medium of exchange and be seen, internationally, in the same way as the US dollar and the British pound are viewed, is for a fairer distribution of the cost of convergence within the 17 member states.

If this does not come to pass, the EU could face long-term problems, resulting in a drain on resources, leading to a material erosion of wealth and, eventually, resulting in a lack of confidence, internationally, in the euro.

Thus, the idea that the euro could ever challenge the mighty US dollar would become little else than a pipedream of the leaders of Europe of 1992.

<u>Germany and its Economic Formula</u>

Germany has, since the early 1970s, been the *'whip'* with regard to the drafting of many of the agreements in respect of matters of materiality within the eurozone.

Germany fell in love with the idea of a single common currency for the eurozone because, among other things, it could not help but to promote that country's self interests: Economic welfare via free market operations; a competitive exchange rate (favouring Germany, of course); and, anti-inflationary tendencies.

Cross-border investment was promoted because, among other things, it tended to help reform the structures of the traditionally weak currencies thus assisting Germany, once again.

The monetary union was generallynt seen, to a considerable degree, as a means to advertise and to promote the successful, German economic formula that praised low inflation and low interest rates.

Many of the governmental leaders of Europe saw the euro as a means to cause Germany to meld, in part, to their economies, resulting in the relaxation of external constraints as well as the amelioration of pressures in respect of inter-state competition.

Further, these leaders wanted to avoid a repetition of the problems that had plagued a number of eurozone economies, during the 1970s and the 1980s – debt and exchange-rate crisis.

An attempt to ecourage Germany to accept, what came to be known as a European Structure, allowing for higher domestic spending, wage increases and inflation, was among the goals of these leaders of the EU.

Germany was intransigent, however, and the dreams of certain European leaders did not materialise.

Germany demanded, inter alia, that there be established the **E**uropean **C**entral **B**ank (**ECB**). The ECB had to be violently independent and, central to its establishment, was a determination to curb inflation within the eurozone.

Germany, also, demanded that the member states adopt economic behaviour, sufficiently similar to justify a single-monetary policy.

For a while, a number of economies of the eurozone toed the German line: Wages were, indeed, restrained in the countries with weak currencies; governmental spending fell, along with consumption; interest rates fell; and, in some economies, GDP growth was stimulated.

<u>The International Crisis of 2008</u>

When the 2008-year brought with it, financial collapses in the US and Great Britain, all Hell broke lose in the eurozone.

Only Germany did not suffer to the extent of most other eurozone economies.

Distrust of the deficit economies of the eurozone followed and this led to a number of horrors from which the world has yet to emerge, at least, not completely.

One of the horrors, as far as the leaders of the EU were concerned, was to witness that certain members states were growing apart instead of leaning closer to the German economic formula.

What happened to the idea of a European Structure?

Had these states determined that the German economic formula might, in many cases, not be exportable?

Distrust of certain deficit governments of the eurozone followed swiftly; international markets brought pressure to bear on some of the EU's govenments; interest rates rose, smartly; external debt ballooned; and, economic growth was, in many cases, non-existent.

Germany, however, was somewhat immune to most of these horrors, thanks to the clever political manipulations of Ms Angela Dorothea Merkel, the 59 year-old, Chancellor of Germany, the first woman to hold this position.

Questions were raised in many quarters of the world: Is the end of the euro in sight?

It was held in the EU that the crisis, facing the 17 nations, had, at its root, the uncontrolled or unwise spending by certain govenments, Greece, being singled out, initially, as a prime example of successively poor and not-responsive governments.

The solution was seen as being simply to impose controls on the wayward economies, tighten up budgets, and demand the imposition of draconian austerity measures.

What appeared to go unseen in the EU was that which the US and Great Britain had been forced to admit: Imprudent banking practices, following a distinct lack of regulation in the private sector.

The shocking fiasco of Lehman Brothers Holdings Incorporated had shaken the financial world to its bootstraps when it was declared insolvent in 2008. It was the largest bankruptcy in the history of the US.

In the United Kingdom, the problems started with a run on the bank, named Northern Rock. This resulted in the bank's nationalisation on February 22, 2008, when it was deemed insolvent.

Insolvency was soon discovered in bank after bank, up and down the Great Britain and over into Ireland.

The world trembled.

A little more than a decade after the creation of the euro, the eurozone has failed to bring about a situation whereby the economies of the 17 member states were sufficiently similar to justify a viability of a single, common medium of exchange – the euro.

Instead of drawing closer together, the economies of the eurozone are, in many cases, struggling to tear themselves apart – and to be free of the shackles of the German economic formula.

The euro, today, clearly exaggerates the many differences between certain member states.

In Germany, today, thanks to the country, being in the eurozone, its competitive edge, internationally, is not counterbalanced by a currency that, on translation to another one, reflects the country's financial strength.

The US Government claims that the renminbi, the medium of exchange of the People's Republic of China, is at least 40 percent undervalued and that the People's Bank of China, the country's Central Bank, is a money manipulator.

As such, the US Government is claiming that the PRC obtains an unfair advantage with regard to it and any and all other countries that import Chinese-made goods.

What about putting Germany under that US microscope?

It could be said that, thanks to the undervalued currency of Germany – the euro – Germany has accumulated massive trade surpluses and continues so to do.

Membership of the exclusive eurozone *'club'* has made Germany immune to international criticism, it seems.

It is obvious that, without convergence of many aspects of the economies of the 17-member eurozone states, the present situation with regard to the euro is quite likely to continue and, from time to time, crises after crises will be manifested.

One thing is without question: The euro, in its present shaky situation, can never challenge the mighty greenback of The United States of America.

And trying to challenge the US dollar might never be possible, no matter what the leaders of Europe might do or say, because of deeply ingrained, national selfishness.

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