Doomed to Fail: Wrecking Europe's Monetary System to Fix It

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From its inception, the Eurozone monetary union was an idea doomed to fail. Nonetheless, it was engineered fraudulently to look workable.

In 1979, Europe's Exchange Rate Mechanism (ERM) was introduced as part of the European Monetary System (EMS) to propel the continent to one European currency unit (ECU).

ERM never worked. ECU is failing. At issue is duplicity, conflicts of interest, and uniting 17 dissimilar countries under rigid euro straightjacket rules. Doing so usurps their monetary and fiscal autonomy disastrously.

Nonetheless, banking giants partnered with EU, ECB and IMF Troika power decide everything. Policies require lowering living standards, sacking public workers, and selling off state assets lock, stock and barrel at fire sale prices.

Today, the euro corpse only awaits its obituary to be written. Successive bailouts and fixes haven't worked. Troubled Eurozone economies are drowning in debt. Adding more makes bad conditions worse.

So do forced austerity measures, layoffs, and higher working household taxes. Lost purchasing power means less spending, fewer jobs, and greater public anger than today's high levels.

Nonetheless, Germany and France pressured other EU members (except Britain) closer to economic collapse. Sweden, the Czech Republic and Hungary said their parliaments would decide whether or not to agree. Nonetheless, they went along.

Germany's Chancellor Angela Merkel said:

> "It's interesting to note that 20 years" to the day after the Maastricht Treaty was drafted, "we have succeeded in creating a more stable foundation for (its) economic and monetary union, and in so doing we've attended to weaknesses that were included in the system."

"I'm very happy with the result," she stressed. Germany becomes an arrogant domineering leader. Britain refused to go along. A new treaty will be drafted. Merkel wants it done by March 2012.

However, it won't be a treaty. On December 13, 2007, the Lisbon Treaty amended

Masstricht. EU member unanimity was required to consummate it. The same requirement holds for changes.

All member states must agree. Constitutional changes may be required. In some cases, referendum approval may be needed. Internal divisions could take years to resolve.

At issue is imposing budgetary discipline on member states. Violators face sanctions. The European Court of Justice will have final say over national budgets. Short-term measures to prevent contagion are also planned.

An alternative is two pacts – one for 17 Eurozone countries with restrictions, and a second for the other 10 EU members without them.

Hours before the Brussels summit, French President Nocolas Sarkozy said, "Europe has never been in so much danger….An agreement….is crucial." Otherwise there's a "risk that Europe will explode."

Britain opted out. At issue are new regulatory proposals UK banks oppose. They include an EU-wide financial transactions tax, bans on short-selling, and requirement that all financial business be conducted in the Eurozone, not London.

At the same time, a provision protects banks and bondholders from losses incurred by bailouts. Worker households will bear the burden.

Other differences remain to be resolved, including between Germany and France. Sarkozy wants less stringent fiscal oversight and more expansive ECB policies. Merkel wants more centralized control, enforced EU austerity, and tighter ECB reigns imposed.

Without Britain, whatever's agreed will be illegal under Lisbon. The December 9 deal solves nothing. Switzerland is preparing for a euro collapse. Capital controls and negative interest rates may be imposed for protection.

A tsunami of euros would inflate the Swiss franc, devastate its export economy, and devalue its overseas wealth. The price for troubled Eurozone countries is economic collapse. It's just a matter of when.

At the same time, the agreement requires 26 EU nations to surrender their monetary and fiscal powers to Brussels. Violators will be punished. Political, economic and legal issues impose immense burdens and uncertainties.

In addition, final details aren't yet worked out. Another summit will follow next year. Europe and America face worsening Depression-level problems. China, India, Brazil and other emerging economies are slowing. A global train wreck approaches.

Recent economic data show why. In November, French business confidence fell for the eighth consecutive month. In October, Japanese machinery orders dropped 6.9%, following an 8.2% plunge in September.

South Africa just reported a 5.6% drop in manufacturing activity. Britain recorded a 0.7% decline. China's October exports fell 1.7% after dropping 3.8% in September.

Korea's exports are down three consecutive months. Singapore's were off in September and October. Indonesia's plunged 8.5% in October after slipping 2% in September. India's imploded 18.3% after being flat in September.

Commodity markets also are being hammered. Copper was down almost 5% in September and 20% in 2011. Since June, aluminum is off 25%. European refinery margins dropped 30% this year.

Representing about 20% of global GDP, Europe is the world's largest economic unit. It accounts for 25% of global oil and nickel consumption, and nearly 20% of other commodities like copper. As it goes, so do countries everywhere, and it's heading south.

Longer-term realities will throw cold water on duct tape solutions. Italy must refinance almost 20% of its sovereign debt (400 billion euros) next year at interest rates punitive enough to push it over the edge. Economic weakness is spreading globally.

In 2012, Spain has to refinance 150 billion euros. Its fate may be similar, especially given spreading global economic weakness. Comments from the Reserve Bank of New Zealand echoed other central bank sentiments, saying:

> "Tightness in international markets means funding costs for New Zealand banks will increase to some degree over the coming year." Global uncertainty signals "risk(s) that conditions (will) weaken further."

The Reserve Bank of Australia was just as glum, saying:

"Financing conditions have become much more difficult, especially in Europe." It suggests "further material slowing in global growth has increased."

The Bank of Canada concurred, saying:

"Conditions in the international financial system have deteriorated significantly since" June 2011, "owing to three interconnected developments:

"sharp(ly) escalat(ed)" Eurozone sovereign debt crisis conditions;

"a much weaker outlook for global economic growth;" and

far less risk-taking globally.

As a result, conditions are expected to remain weak, uneven, and uncertain. Contagion's also at issue. Core Europe is affected. French and German economies look much weaker. In fact, Germany's banking sector is in much worse shape than earlier thought.

Progressive Radio News Hour regular Bob Chapman says six troubled Eurozone countries can't compete "and more may follow." Debt levels keep rising. "This was known and evident from the very beginning, but the experiment went ahead anyway."

Bankers, politicians and bureaucrats want world government. Competitive nations want profits. It took a decade to destroy the infrastructure of weak economies. The euro's "on its way out – another failed experiment."

If stronger countries opt out, "governments, banks, insurance companies and pension plans would very well be wiped out by the bad debt."

Moreover, Eurozone disintegration will take America, Britain and global economies with it. Twelve years ago, Chapman predicted it. It's now a reality, he says. He sees stopgap measures delaying its eventual demise.

"History tells us involuntary acceptance of profligate credit expansion and unpayable debt leads to total catastrophe for the entire financial system."

Troubled Eurozone economies need $6 trillion to avoid collapse. Whatever they get won't offset needing more help down the road.

Moreover, Friday's "grand bargain" achieved nothing. ECB monetary policy won't be expansive. Britain and many EU countries won't follow budget deficit restrictions. All of them have poor track records keeping promises.

Greater trouble lies ahead. Bailouts and agreements beget new ones. Final resolution only is delayed. Contagion spreads Eurozone problems everywhere.

The longer crisis conditions persist, the worse they'll be when day of reckoning time arrives. It's just a matter of time.

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