"Europe Is On The Verge Of Collapsing"

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Europe is on the verge of collapsing and the world is again in the quagmire, the reason being Europe, rather than just Greece, is the planet's soft belly, and the impact of Europe's eventual downfall would make itself felt throughout the world, even if Germany, or France, could somehow be spared.

The scale of impact is unpredictable, but potentially worse than that of the recent toxic assets crisis. The European bloc is the second largest economy, the first trade partner of China, the largest importer of Russian energy and the first buyer of high quality raw materials (it still holds the Hilton quota, the world's most expensive meat quota).

All over the world European debt holders and many states maintain their reserves in euros. China, for example, has one-fourth of its reserves in such currency and holds a large amount of Greek, Portuguese and Spanish debt bonds….

Without debt restructuring involving important debt amount reductions and extended maturities, Greece will not be able to meet her commitments, just like the rest of Europe's debt-overhung Europe's periphery economies – Ireland, Portugal, Spain, and Italy, and the effects would certainly contaminate the rest of Europe including the region's strongest economies.

The illusion of dampening the fire by deferring debt maturities is just that – a chimera. Unless public and private bondholders' debts are reduced and longer maturities granted, default and meltdown are around the corner.

Debt restructuring means debt renegotiation of debts on behalf of those unable to honour them. In case of default it entails sovereign default. A country notifies its debtors that it is unable to pay and goes into default, outright failure, or proposes to renegotiate its debt and pay less or get extended deadlines.

Amount reductions may involve paying a percentage of the original debt, or the original amount during a longer period, or even paying one's whole debt over longer periods.

Greece, Unable To Pay A Debt Exceeding 150% of GDP

The latter solution is not available to Greece: with negative real GDP growth, fiscal and trade balance deficits, among other negative indicators, the country is unable to pay a debt exceeding 150% of GDP, even in a far off future.

In the April 2009 London G-20 summit, whose dubious merit was the rescue of private banks with public money, the developing world bought the idea that the worst was over – and emerging countries bought the idea that this time they would emerge unscathed from the crisis just by adopting local measures to mitigate the domestic impacts.

The customary commitments to regulate financial activity and prohibit purely speculative operations were once again heard at the summit, in London, and such formulae are now at the centre of the European blistering scenario.

Europe Lost The Opportunity To Avoid The Current Crisis

The bloc was the only space where you could have regulated and blocked financial activity; controlled or prevented purchase of sovereign debt by private investors; prohibited sovereign debt rating by risk rating entities in conditions such as those of reportedly fraudulent qualifications of toxic bonds as AAA, which collapsed from 2007 on, simultaneously with recommendations to purchase default swaps against those very bonds; capital flight control, and even tax the sector itself to create a sovereign debt buyback fund and / or even for future bailouts and to propel viable adjustment and reform mid- and long term programs.

Such elementary measures would have been, at least, survival plans.

However, individuality, competence, speculation and political expediency prevailed, and the stronger countries imposed an every-man-for-himself scene by taking unilateral measures and forcing conditions on the rest of the block.

A year ago Germany, for example, banned short sellings, and Italy followed suit. If Germany can impose adjustment programs to the whole bloc, why not impose financial regulation, thus preventing speculators from jumping from one market to another, non-regulated one? Germany is not Europe, some people say. Neither is France, others say.

No Consensus In The European Union

Early July the European Parliament approved measures to regulate derivatives markets and credit default swaps, compensate private investors victimized by fraudulent investment firms, short selling (the practice of trading speculative financial assets at large discounts), purchase of credit default swaps by investors or entities holding bonds related to such swaps or with related companies whose results depend on the evolution of government securities, and over-the-counter transactions (speculative purchases between two parties without mediation, which in 2009 moved at least 400,000 million euros), but such measures are not effective unless approved by the Council of the European Union.

Again there is no consensus between the members, some of which, mainly the biggest ones, squarely reject any regulation. So, nobody knows when such approval will take place, if ever. As for support programs for countries in trouble, forced to fend for themselves, indebted to unsustainable levels, and then “supported” on condition to the implementation of adjustment programs with severe social consequences that take years to reverse and impact on the rest of Europe.

We’re not saying that Germany, France or The Netherlands should unconditionally bail out such debtor countries – they should certainly have to improve their indicators and spend more carefully – but not in the context of nonviable programs such as those that have worsened their situation and swollen their debts.

The Greek debt, for example, needed restructuring last year, when it was known to be impossible to meet, and the country and the entire euro area were in a better position to renegotiate with banks and investors.

The Largest Bailout Package In Europe

Instead, Greece was coerced to implement a bailout package of 110,000 million euros, the largest in Europe.

Since then, creditors, with IMF advice, have been evaluating and speculating on the consequences for their economies and banks of letting Greece go bankrupt or rescuing her. Now it is too late. It is not Greece.

Greece's bankruptcy would also prompt the failure of other countries in the Southern periphery, and if Greek debt restructuring occurs such other countries would also be called to accept debt-restructuring plans.

Despite this reality, Germany, France and their Northern partners continue to consider the convenience of restructuring the Greek debt, under some other denomination, to avoid the spectre of contagion, seemingly believing such euphemism makes any difference whatsoever at this stage, considering each of them is implementing selective sovereign-debt reprogramming or repurchasing programs, with compulsory or voluntary participation of private paper holders.

No Magic Wands

As for the rest of the indebted countries the Finance Ministers of the European area have just signed a treaty creating a permanent 700,000 million dollars bailout fund, kind of an European International Monetary Fund, which in fact requires the amendment of the Union Treaty and ratification by the member countries. Its purpose is to assist countries in financial difficulties from July 1, 2013. 2013? For the euro zone crisis, 2013 is kind of another century, if anything. Europeans keep playing for time, as somehow their problems might magically be solved.

There are no magic wands. Time may heal wounds, but certainly does not extinguish fires. Without debt restructuring and financial regulation, the collapse of Europe is just around the corner and will quash the uneven and incipient global economy recovery. Europe is not playing with time, it is playing with fire.

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