

EUROZONE CRISIS

The Eurozone is in dire straits. The immediate cause is the scale of national debt of some of its members. Greece, Ireland and Portugal have already needed help to avoid bankruptcy. Italy and Spain could soon join this group. Chancellor Angela Merkel spelled out the implications on Wednesday. "If the euro fails, then Europe fails." Whilst Europhobes might cheer, the implications for Britain and the rest of the world should not be underestimated. That is why EU members outside the Eurozone, including our own Prime Minister, insisted on attending Tuesday's summit, much to President Sarkozy's chagrin.

The problem for EU leaders is that many of their domestic banks have lent to Greece, Italy and other deeply indebted countries. The good news for Britain is that our banks seem not to have done so. Wednesday's summit meeting produced measures that go some way to coping with the Euro crisis. The leaders agreed to expand the European Financial Stability Fund, used to bail out failing economies, from €440 billion to €1trillion. President Sarkozy wanted to go further but Chancellor Merkel vetoed an increase to €2 or 3 trillion. Time will tell which of them was right but if Italy and Spain both need help the larger figure could be needed. The banks holding Greek debts have been asked to write off 50% of them, not the 21% previously suggested. To do this they will have to raise their capital reserves by at least €106 billion (£92 billion). How they will do this is uncertain but President Sarkozy has volunteered to ask the Chinese to help them.

These measures are short term 'first aid', but are probably all that could be agreed and delivered at this stage. It is significant that the Eurozone leaders have stuck by Greece and the other indebted members and not let them go to the wall. The stock markets of Europe and Asia have rallied in recognition of this determination to preserve the Euro but Wall Street's response will determine whether this rally is sustained. Nevertheless, the weak economies have to bring their debt under control and if the experience of the Greek Government is a guide, austerity measures could provoke civil disorder and in Italy's case the break-up of their coalition Government.

The one change that would make a big difference is economic growth but austerity measures, tight fiscal policies, and the tight monetary policy of the European Central Bank work together to inhibit growth. Wealth creating companies find it hard to borrow to invest in new production and consumers seeking to reduce their indebtedness are not spending, so markets are flat. So far as Britain is concerned, not being in the Eurozone is helpful but Europe is our largest export market, which makes boosting economic growth harder. The Eurozone may already be back in recession and could drag us there too.

This whole saga exposes the inherent flaws of not living within one's means. The low interest rates of the last decade encouraged Governments and individuals to live beyond our means. We are witnessing what Edward Heath called 'the unacceptable face of capitalism'. Capitalism, like socialism, is a product of 'Enlightenment' thinking. In recent years it has encouraged us to depend too heavily on credit to indulge materialistic lifestyles. The challenge for our political leaders is to formulate and implement an alternative form of capitalism that seeks a better balance between what is good for the nation and for individuals and families. As individuals we could play our part by thinking less about 'what's in it for me' and more about what is good for my needy neighbour and the wider community.

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