

GLOBAL INSIGHT

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Budget overlord will not solve eurozone woes

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By Alan Beattie in Washington



Germany wants to appoint a European Union commissioner with veto power over Greece's budget and to force the government to place debt service before all other public spending.

Cue howls of indignation from Athens and unembarrassed shrugs of what-did-they-expect in Berlin.

Whether this is an exasperated guardian finally laying down the law to its delinquent ward or an unconscionable invasion of national sovereignty depends not just on your view of where the eurozone should be going, but how it got here.

Frame the narrative in one way, and the German proposal looks reasonable. A country with a chronic inability to manage its public finances was generously but unwisely allowed into a single currency anchored by a nation of legendary fiscal and monetary probity.

When reality caught up with it, that country half-heartedly tried to undo the effects of decades of fiscal and economic mismanagement, generously assisted by rescue loans at massively below-market rates from the few creditworthy governments in the union. When it failed, thanks to endemic political dysfunction, those governments rightly insisted on putting together the framework of a fiscal union they should have done a decade before.

Frame it another way, and it looks outrageous. A peripheral poorer nation was encouraged to join a badly designed single currency by the rich elite of countries that dominated it. Those countries, having set up borrowing rules for the currency union, were the first to break them and did so with impunity.

Through complacency and inept financial regulation, and lacking good investment opportunities in their own stuttering economies, they then encouraged their banks to lend recklessly to the country on the periphery. When those investments went sour, the elite governments rushed to bail out their banks first by loading up the debtor government with yet more loans to pay them back and then by imposing a foreign overlord to extract repayments through legal force.