

Greek Tragedy in Europe and the Eurozone's Grand Plan, and Argentina celebrates Cristina Kirchner's big election victory

The European Union and the Eurozone faces its worst ever economic and financial crisis since its foundation. At its epicenter is Greece whose economy only represents 3% of the total Eurozone economy. Greece has huge debts which threatened to lead to a loss of confidence through Euroland bring down with its other bigger economies like Italy, which has 120% debt compared with the size of its Gross Domestic Product. The Euro leaders met in Brussels and put forward a bold plan, which the Greek Prime Minister George Papandreou agreed with, and then the following week said he would put the tough austerity measures to a referendum. This made the European leaders attending the G 20 meeting in Cannes very angry. French President Sarkozy said that if Greece rejected the bailout plan they would be out of the Eurozone, and would receive no further bailout money. President Sarkozy was strongly backed by the German Chancellor Angela Merkel. The Greek Prime Minister George Papandreou was attacked on all sides, and his own Finance Minister opposed the proposed referendum on the EU/IMF bailout plan. The European political leaders felt he showed bad faith, as by supporting a national referendum on the economic rescue plan, which would be rejected by Greek voters, as he had only a short time supported the terms of the bailout which meant a 50% cut in Greece's debt, and more bailout money. They felt that Greek Prime Minister Papandreou showed bad faith, and was playing politics at the cost of his own country's economy.

In Argentina Cristina Kirchner was re-elected with a large 54% of the popular vote, and her party regained control of the Chamber of deputies, and the upper house the Senate. This was a resounding vote of confidence by Argentina's voters in her economic and social policies. Her next leading opponent was the moderate socialist candidate Hernandez Binner, who obtained only 17% of the vote. This huge increased majority enables her and her Peronist Party and its allies room to pursue their economic and social programmes in the face of a potential global recession in 2012, and a reduction in soya exports to her biggest economic and trade partner China. Brazil is also one of Argentina's biggest export markets, and Argentina is Mercosul's second biggest economy. Argentina's social democratic government led by President Cristina Kirchner has followed centre left policies similar to those pursued by the PT (Workers Party) governments of former president Lula, and now President Dilma Rousseff. Unlike Europe these days both Argentina and Brazil, the people are confident, despite corruption in their political system. There has been a lot of economic, social, and industrial progress within the last decade. While the Head of the IMF warns the European Union leaders of a lost decade if there is no economic growth, and prolonged economic stagnation.

Mr. Papandreou has now resigned as Prime Minister of Greece, the European Union's leaders, and the financial markets, the opposition, and his own Socialist Party were much relieved. Despite the serious political crisis and economic turmoil in the world's financial market it took four days to select a new Prime Minister Lucas Papademos, the former Deputy Governor of the European Central Bank (ECB), who is regarded as a safe pair of hand and a technocrat. He has been given the job by Greece's President of forming a new unity coalition government led by Greece's new Prime Minister, and including the ruling Pan-Hellenic Socialist Party (PSOK), and the conservative New Democracy Party. Both parties are responsible for Greece's serious economic difficulties.

The Greek opposition refused to form a coalition government of national unity with Greek Prime Minister Papandreou, so he was forced to resign, and the Greek President had talks with the leaders of all parties to choose a new Prime Minister acceptable to all parties, who could form a national unity Government. At the same time the financial markets lack confidence about the credibility of the Italian Prime Minister Silvio Berlusconi in following a credibility plan of economic reforms, which involve cutbacks in public spending, a reduction in the budget

deficit. Italy has a huge public debt of 120% of its gross Domestic product. This lack of confidence has spread to the Italian Parliament, although he managed to get a vote of confidence on passing last year's budget due to the opposition parties' abstention, but his government has lost their overall majority. There are calls from his own government to step down to make way for a new leader as Prime Minister. Italy's public debt has been downgraded, and the country's interest rates have soared to a high level.

At the recent G 20 meeting, which was held in Cannes, France the new emerging economies like China and Brazil promised to help out the old continent, and to increase money for the IMF to lend to the troubled Eurozone. Europe is China's biggest market and china has a strong economic interest in its biggest market not collapsing financially, or economically. However, the President of China's huge state sovereign wealth fund showed little sympathy with the economic plight of China's biggest economic and trade partners. He said that China would not help the EU as Europe had higher living standards than China, a more generous welfare state and European social model. This did not seem a very socialist position from a supposedly communist state, and it overlooks the fact that China's overvalued currency is responsible for global financial imbalances, and that China has benefited from exporting to the huge Western markets such as Europe, and the USA. At the recent APEC Summit held in Hawaii President Barack Obama in a bilateral meeting with China's President Hu scolded China for its undervalued currency, and for not respecting the intellectual property rights of American firms, which means stealing American technology without paying fees and royalties to US companies. China's much-touted economic miracle and export-based growth model has relied heavily upon Western technology, and foreign investment.

Brazil's President Dilma Rousseff adopted a more balanced and sympathetic approach and said that the European Union must not sacrifice economic growth and jobs, and must be concerned about the social and economic situation faced by the poor and the unemployed.

The French President Sarkozy at a press conference during the G20 meeting said that Greece should never have been allowed to join the Euro, as its economic conditions were unfavourable. However, when the PIGS countries had high growth rates the financial markets did not complain, large amounts of foreign investment flowed in, and the other European Union states and the European commission did not complain strongly. The Euro has acted as a straitjacket preventing the weaker peripheral European economies from growing, if they were not in the Euro economic adjustment might have been easier as they could devalue their currencies to boost exports and jobs, and also have autonomy over their monetary policy and interest rates. However, Argentina defaulted on its foreign debts in 2001, and even now the country cannot raise money on the global financial markets, which seems somewhat unfair as it has a strong economic growth, and high levels of foreign investment, about US\$ 50 billion up to September 2011. However, Argentina's default although serious would not have the same impact upon the global economy as the financial collapse of Greece, followed by Italy and Spain, which have huge economies.

President Barack Obama at the G20 meeting in Cannes praised President Sarkozy's role in getting an agreement, or a grand plan for a eurozone/IMF economic rescue plan for Greece, and the eurozone. He was worried that the financial and economic crisis could undermine the weak American economic recovery. The G20 final communiqué stressed the need for boosting economic growth, flexibility of exchange rates a code word for China's currency to be revalued, and reduction of global imbalances. Greece a small European economy was able to hold the European and global economies hostage. However, the new eurozone austerity plan for Greece involves even more pain, Greek economy will be unable to grow for the next ten years, and its debt will still be 150% of its GDP. The 50% cut in the Greek debt was a step forward, but perhaps the reduction could be more to stimulate economic growth and jobs again.

Britain supported the Euro plan to strengthen the Euro and bailout the Greek economy, but the Prime Minister said that no British money would be forthcoming, and that the IMF should not lend to the Eurozone. This is strange as the British economies is closely linked to Europe with about 40% of British exports going to the European Union, and London as Europe's largest financial centre would be badly hurt if the Eurozone economies and financial system collapsed.

The Euro leaders meeting in Brussels agreed to a new economic governance of the Euro area. The Eurozone will elect a president, and have two summits per year. There will be greater harmonization of their economies, and fiscal policies. However, there is a great danger of the non-Euro economies of countries like the UK, Poland, and Sweden being cut off, or not consulted by the new Euro economic government over decisions and policies, which could affect their economies. The right wing British coalition Government is very unpopular at home, and would be unable to get the support of British public opinion to help struggling Euro economies. It has been estimated that Britain would have to pay 40 billion pounds, and Britain is not a member of the Eurozone, and is a net contributor to the European Union. According to recent estimates over 49% of British voters support British withdrawal from the European Union, and there was a revolt of mainly Conservative Party MP's to demand the British Government put forward a national referendum on whether Britain leaves, continues within the EU.. There is a serious risk that it would lead to a two speed Europe, and this could lead to a divorce in the future. It is necessary for the non-Euro governments of the EU to create their own institutional structures to ensure that their voice is listened to in Brussels.

If the European leaders had acted much earlier and quicker and supplied greater funds for the European economic and financial Stability Fund, and to raise the capitalization of the banks, and build effective firewalls this serious economic and financial crisis can be avoided. The financial markets are fickle, and they have rallied upwards at the news of a new Greek Prime Minister Lucas Papademos, a veteran central banker and technocrat, and a coalition government is due to be set up soon, and the resignation of veteran Italian Prime Minister Silvio Berlusconi, who resigned after pressure from the markets, the two main Euro leaders Germany and France, Italy's Parliament, and Italian public opinion. There is now a more hopeful era in Italian politics, which brings to an end two decades of Berlusconi's dominance of the Italian political scene. The stock markets have risen in the USA and Europe with the news of new leaders who will effectively implement the new austerity measures. However, the lack of economic growth and economic stagnation will set off an economic and political crisis.

The EU has estimated a low economic growth rate for the Eurozone's GDP of only 0.5% for 2012, and an economic recession is likely to lead to a slowdown in the global economy, which will damage the economic growth and export prospects of emerging economies such as Brazil, Argentina, Russia, and China and other states as well. 2012 will see the heating up of the US Presidential Election Campaign, which will increase economic and political uncertainty, which the financial markets will not like, and will find unsettling.

The European economic and financial crisis can only be resolved by political firmness and direction German as the biggest Euro economy with the biggest pockets must stand behind ant firewall, and the European Central Bank has to act as a lender of last resort. However, fears of inflation may stand in the way of the ECB supporting the weaker economies.

At present the bond and stock markets are showing strong surges on the news of new governments in both Italy and Greece. The borrowing costs of Italy, the Eurozone's third largest economy have fallen. One hopes that this optimism about the euro-economy continues. These governments are led by un-elected grey technocrats, rather than populist politicians. The important question is whether they can carry their people to accept such drastic economic reforms. These new leaders will do the bidding of Germany, France, the European Commission, global financial markets, and the IMF, rather than their own citizens.

Unlike the troubled Eurozone economies Argentina elected a popular President who has promised economic growth, although the fall out effects of the European sovereign debt crisis can cause a global slowdown in trade, and cause a fall in Argentina's commodity and farm export prices and export earnings. President Cristina Kirchner guided by her vice-President who is an economist, and a fairly independent character, has decided to cut the huge government financial subsidies which benefit the poor and middle class alike, such as subsidized public utility rates for water, electricity, gas, metro and bus fares. However, she did not mention this in her recent election manifesto. If the election had been held next year rather than on October 23rd of this year, Cristina and her Peronist Party would not have done so well. The cuts in financial subsidies for public utilities will intensify Argentina's inflation rate, which is the highest in Latin America and estimated at over 25% for 2011. However, Argentina's economy is still expected to grow by 5% of its GDP this year a figure that would be envied by Europeans and Americans.

A major problem is that the prime ministers and governments of troubled Euro economies like Greece and Italy have been forced out of office by the bond markets, foreign creditors, and the European Union rather than by their people. As their economic reform and austerity packages start to bite, growth will be stalled, unemployment rises as public sector jobs are cut, and salaries of workers especially in the large public sector are frozen, the standards of living of their people will fall. This will lead to a rise in social and political unrest, and these governments supported by their parliaments may be defeated at the polls. There is a real pessimistic fear that the European Union will experience a regional credit crunch like in 2008, and low economic growth, and a continuation of the existing high unemployment.

The situation in Italy is even more serious than that of Greece for the Eurozone economies, as Italy with its large Gross Domestic product of 2 trillion euros the third biggest economy of the euro area. It has a huge public debt of 120% of its GDP, and a budget deficit of 4.6% of its Gross Domestic product. The resignation of Silvio Berlusconi and his replacement as prime Minister by the tough respected economist and ex-European commissioner Mario Monti, which should help to increase confidence in Italy by the financial markets, foreign creditors, and the European Union and the IMF. If markets calm down and an economic reform package is approved the borrowing costs for Italian public debt should fall to a more manageable level.

However, the writer believes that if the European political and business leaders have more confidence this dismal situation can be overturned. There is a need for job creation measures aimed at the jobless, increased consumption, and avoidance of rash rapid deficit reduction. Budgets should be trimmed more gently, and more over the long-term to allow economic expansion and growth to take place. The banks need to be encouraged to lend to businesses across the European Union. This approach put forward by Brazil's President Dilma Rousseff during her recent European visit can help Europe, USA, and emerging economies such as Argentina and Brazil. Europe despite its economic difficulties needs policies to promote growth in their economy and jobs, and to preserve its flexible European social model despite increased competition from low wage economies. High technology industries require highly educated and qualified human capital, a good quality education system, and heavy public and private investment in research and development, and transport and communications.

Japan during the quarter ending in September 2011 showed strong growth of 6%, this is probably due to strong recovery from the catastrophic Fukushima nuclear disaster earlier in the year. The utter devastation and damage to the northern part of Japan, and the damage to the Japanese economy has meant that there is a requirement for heavy investment to rebuild the region affected, especially its infrastructure there.

Argentina had reason to celebrate Cristina Kirchner's big election victory, while Europe has less reason to dance. The Organisation for Economic Co-operation and Development (OECD), which represents major developed economies in Europe, USA, and Japan stated that every

economy it monitored suffered an economic slowdown in September 2011. Its data showed growth slowing in all OECD countries, and big emerging economies as well. The economic outlook in the short-term for Europe, USA, and the global economy does not look.

The APEC Summit of Pacific economies was held in the American state of Hawaii, President Barack Obama's birthplace. He stressed the importance of the Pacific region for American economy, trade, industrial exports, and jobs. The APEC countries comprise 3 billion people, a huge consumer market. He also formed a new Trans-Pacific Partnership, comprising 500 million people, to focus on trade expansion, and a low carbon green economy, and to create new jobs and export prospects for the US economy. He said that the Pacific economies are where economic growth and trade is centred these days, and he wants these economies to offset the effects of the European economic recession and slow growth on the American economy.

The Euro financial crisis is far from over despite the resignation of Silvio Berlusconi as Italian Prime Minister, the end of his prominent role in Italian politics over the last 17 years, and the appointment by the Italian President of the respected economist, and former European Commissioner Mario Monti, who is widely respected by bankers, investors, and foreign creditors, and is viewed as a technocrat, and a safe pair of hands. In his first public speech he gave priority to sorting out Italy's financial mess, and will implement the recent economic reform programme passed last week by the Italian Parliament which will raise the retirement age, cut public spending, raise taxes, and privatization. However, Silvio Berlusconi's political party is still the largest in the Italian Parliament, he will still be a powerful figure behind the scenes, and he could still derail the new government. The European and American stock and bond markets showed a strong rise at the change in leadership in Greece, and later Italy. Italy public debt is at a staggering 1.9 trillion euros, and with the cost of borrowing escalating to nearly 7% could have to Italian bankruptcy, and Italy if the Euro's third biggest economy, comprising 20% of the total Euro Gross Domestic product. This could then have spread to Spain another big euro economy, and the eurozone would have collapsed, as there would not be enough bailout money to save both the Italian and Spanish economies, it would spell the end of the European Monetary Union. This is even worse than faced by Greece which comprises only a tiny 3% of the Euro GDP. It will take a decade of harsh austerity and low growth for the Greek economy to recover, a deep recipe for any government or people. The writer believes that the write off of Greece, Portugal, and Ireland should have been much more to allow their economies to grow, the debt burden to be reduced, unemployment cut, and living standards to be preserved. In Greece the new Greek Prime Minister is also viewed as a safe choice, and he is a former Deputy Governor of the European Central Bank (ECB), but there is strong pressure on him to implement the tough bailout austerity plan. Germany as Europe's biggest economy, and richest country has to make up its mind what shape it wants the Euro currency union to be, a small core group of rich countries such as Germany, France, Belgium, Holland, and Luxembourg. If Germany wants the Euro area to survive as a 17 member states regional currency union it will need to accept tighter fiscal coordination and cooperation, a fiscal union, and even the British Euro-sceptic Minister of Finance George Osborne has said as much.

Former British Prime Minister Tony Blair has recently said that the collapse of the Euro would be a catastrophe for the European Union. Germany and its taxpayers must be willing to provide money for fiscal transfers to weaker and troubled economies on the eurozone. The dithering by Germany and France has led to even bigger financial costs now and adjustment problem, which could have been avoided, if action had been taken at an earlier stage. This would have led to more economic and financial confidence, and stability. Germany and France the dominant leaders of the eurozone should have showed greater boldness, and community economic and social solidarity much earlier before the debt and financial crisis ballooned out of control. German Chancellor recently said that Europe is facing its worst crisis since World War II. She said that there is a need for a closer political union to overcome Europe's economic difficulties. She is a strong defender of the Euro. 60% of German exports go to the 27 state European Union, and the German economy benefits from the single common market. She has recently

said that the Treaty of Lisbon should be changed in 2012 to allow the 17 euro countries to participate in greater economic and political integration, this treaty change will require the assent of all 27 EU members, including Britain. Recently the Leader of the main opposition Labour Party Ed Miliband, and his opposition finance spokesman Ed Balls said that the UK should seek the transfer of some powers from Brussels to London, and the more euro-sceptic Conservative MP's would favour this option. Britain would still be a member of the EU, but would be on the outer ring of EU, and not those members of a new tighter inner core of euro economies moving towards closer political and economic union. Allowing for a more flexible multi-speed Europe will probably be the price Britain would agree to in exchange for agreeing to treaty changes.

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