

# The Washington Times

www.washingtontimes.com

---

## Wars around Brussels

By Richard W. Rahn

Published June 22, 2010

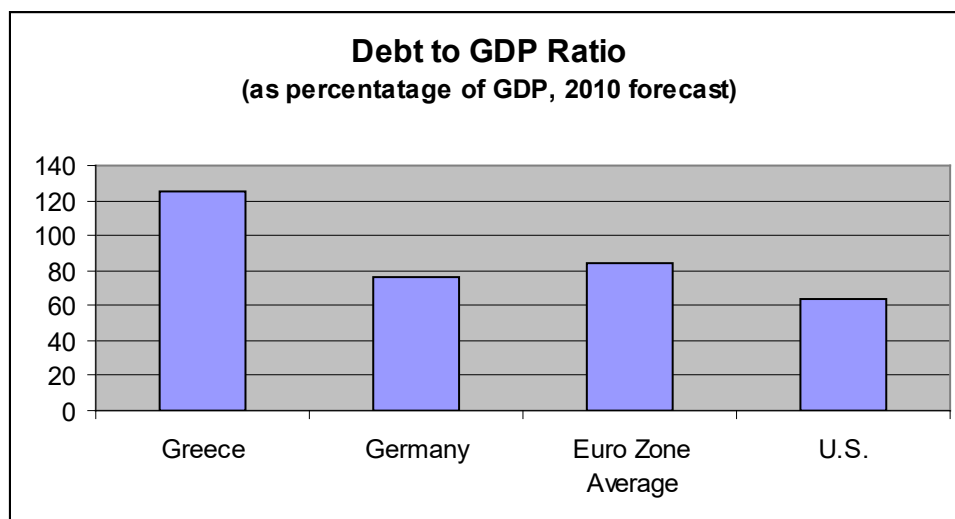
---

*Current battle is between economic realists and deniers*

BRUSSELS, Belgium

For the past 200 years, much of the fate of Europe has been determined near this lovely city. That is equally true at the moment as the leaders of Europe meet in what slowly is becoming the capital city of Europe to make decisions that well may determine whether the euro and even the European Union will continue to exist.

As every schoolchild knows, Napoleon was finally defeated two centuries ago at the battle of Waterloo - close enough to Brussels to be considered a suburb. The great battles of World War I were fought largely within a drive of an hour or so from Brussels, to the west. Dunkirk, where the British army escaped from continental Europe in 1940 to fight again is a relatively short drive to the northwest of Brussels. Finally, the Battle of the Bulge in 1944 - the last great battle of World War II on the Western front - was fought in an area not all that far south of Brussels.



The current battle being fought in Europe is between the economic realists and the reality deniers. Most of the eurozone countries are on an unsustainable spending path in that government spending is or will be growing at a faster rate than gross domestic product (GDP), and as a result, government debt is growing as a percentage of GDP. This trend cannot continue because interest payments for debt service will eventually eat the entire budget. Governments must either sharply reduce spending growth, which means the growth in entitlements, or resort to temporary solutions, such as partial or full debt default, or massive inflation.

To avoid becoming other Greeces, governments will need to reduce the number of government employees, greatly increase their retirement ages, reduce the number of their vacation days and sharply curtail their other benefits. As would be expected, public employees are protesting with strikes, demonstrations and, in a few cases, riots. Retirement ages for those on government pensions also must be increased steadily because of the rise in life expectancies and the falling number of workers per retired person.

It takes strong leaders to deliver sour medicine to the populace, particularly in democratic countries. Such leaders are largely absent in Europe at the moment. Worse yet, the major moderate parties in many European countries are losing ground and being forced into unstable and weak coalitions.

The European Central Bank has lost much of its independence, with the president of the European Council gaining power without clear legal authority. Most of the eurozone members are in violation of their treaty obligations regarding debt and deficits, yet there is no authority to bring them into compliance.

What will happen? It is easy to paint a picture of increased political and economic chaos in Europe, the end of the euro and the rise of new dictators, much like what happened in the 1930s. However, a more likely and more optimistic scenario would be as follows: The Germans, even with a weak coalition government, will make the necessary spending reductions - but in doing so will almost gut their remaining defense budget. Once the Germans have put themselves back on the track of fiscal sustainability, they will be in a much stronger position to pressure their fellow eurozone member countries to do the same.

The German people and the German government are not going to give unlimited bailouts to their fellow eurozone members. Once this becomes clear, the other eurozone countries will be forced to put their fiscal houses in order or leave the eurozone. Most will understand that the pain of putting one's fiscal house in order will be far less than the economic misery resulting from leaving the eurozone. Yet it might be necessary for one country, such as Greece, to leave for the others to see what a really bad alternative that would be.

The current European war between the economic realists and the reality deniers will stagger on for many months and, perhaps, a few years. The realists will not have an easy time of it, not only because of entrenched European special interests - government employees, unions, corporations and others on the government dole, etc., but also because the U.S. economy is likely to be weak for the next few years as a result of the disastrous tax-and-spend policies of the Obama administration. Ultimately, reason is likely to prevail because the films of what happened in the last century when reason did not prevail are shown often enough to remind everyone of the alternative.

*Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.*

<http://www.washingtontimes.com/news/2010/jun/21/wars-around-brussels/>

Copyright © 2010 News World Communications, Inc. All rights reserved.