

# Sunday Business Post

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## US impatience with Europe grows

The summit meeting of eurozone leaders set for the end of this week will be watched closely in the United States. The Americans are increasingly concerned about how the crisis may affect the US economy, exasperated with the apparent inability of the EU as a whole to come to grips with it.

The stakes are now so high that some action at the summit is almost inevitable but, in the US, experts question how effective it will be.

"I'm ruling out utter and complete disaster -- and I'm ruling out drawing a line under the crisis," said Barry Eichengreen, an economics professor at the University of California, Berkeley, and one of the foremost US authorities on the eurozone.

"Eurozone leaders will 'agree', which is a word they always use, and they will 'commit', which is another word they always use, and they will 'move to strengthen' final rules, which are words they always use.

"But there is not going to be ECB unlimited bond-buying, there is not going to be immediate and widespread labour market reform. Europe has taken several years to get into this mess, and it isn't going to get out in a month."

The role of the ECB has come in for particular criticism in the US. Contrasts tend to be drawn between the actions of the US Federal Reserve during the worst days of America's crisis -- when it essentially made clear that it would provide a safety net for the financial industry as a whole -- and that of the ECB, which has taken a much more ambivalent position.

"To be fair, for everything else that has gone on, the US Federal Reserve has been pretty clear about what its intentions are," said Cian Cotter, a native of Co Cork who is now a principal with Insight Venture Partners, a Manhattan-based venture capital firm. "In Europe, there have been so many more muddled messages."

Last week also brought a fresh attempt by the Federal Reserve, in conjunction with five other central banks, to mitigate the worst effects of the crisis. The decision to enable more inexpensive dollar loans to European institutions produced a sigh of relief from financial markets.

But several American experts looked askance at the market reaction, arguing that the initiative taken by the Fed, the ECB and the national banks of Britain, Canada, Japan and Switzerland was not as significant as the stock markets appeared to believe.

"I would never have guessed that lowering this particular borrowing rate would be a significant policy move," Arnold Kling, an economist and adjunct scholar at Washington's Cato Institute, wrote in a New York Times web discussion.

"No government has brought its budget under control. No political impasse has been broken. No bank has become better capitalised. And yet the markets are in a state of euphoria."

That said, the populist argument that the Fed is risking American taxpayers' money to prop up Europe does not seem to have gained traction. Instead, a consensus has developed that since the plan provides for lending between central banks, the collapse of one or more individual institutions would not absolve the ECB of its obligation to pay back the Fed.

More generally, the crisis in Europe has also become a vehicle for some notable Americans to continue fighting domestic ideological battles. Last week, for example, two New York Times columnists, the liberal Paul Krugman and the conservative David Brooks, made sharply contrasting arguments.

For Krugman, Europe has exacerbated its problems by listening to those on the right who had preached the virtues of austerity. Such austerity, he argued, had been enacted on the basis that it would restore confidence, "but the confidence fairy was a no-show".

Brooks answered his own question ("Why are nations like Germany and the US rich?") with the argument that it was because of their values of hard work, prudence, enterprise and fairness.

"Our sympathy should be with the German people," who, he wrote, in their reluctance to bail out other eurozone nations, were "defending the values, habits and social contract upon which the entire prosperity of the west is based".

The fear looming over all these discussions is that the crisis in Europe will hamper the US economy just as the latter seems to be gathering speed. New job numbers released at the end of last week showed the official US unemployment rate falling from 9 per cent to 8.6 per cent.

At a more localised level, too, impatience with Europe is growing.

"I deal with investment banks, [which are] trying to get deals done for their clients," said Cotter. "At the moment, those deals are either not happening or happening at cheap prices. So those guys just want Europe to get this sorted."

The European recession that now seems almost inevitable (many economists believe it has probably already begun) will clearly have an effect upon the US, but much is dependent on its severity.

Last month, Desmond Lachman of the American Enterprise Institute testified before Congress that as the European economy "accounts for over 30 per cent of global economic output, a deepening of the European crisis could very well derail the US economic recovery".

Eichengreen told *The Sunday Business Post* that if Europe could not heal itself, "it will be serious for the United States". He added that he was less gloomy than many about the future of the euro itself, arguing that too much had been invested in the overall project for EU leaders to allow it to implode. But he still acknowledged that such an outcome was possible.

"It would be catastrophic if that were to happen. It would be Lehman Brothers squared. But it could happen if people make mistakes, or if they play to the gallery at home for too long."