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The EU is an economic train crash we're watching in slow motion

It's virtually impossible to get robust economic performance with a bloated public sector and populations that have been infantilized by government dependency, says Cato's Dan Mitchell

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The economic and fiscal crisis in Europe looks worse every day as a growing number of international investors decide that nations such as Greece, Portugal, Italy, and Spain can't be trusted. As a result, interest rates on government debt are hitting record levels.

Not surprisingly, Europe's craven political class is refusing to reduce the burden of government, perhaps because many nations have reached the dangerous tipping point where the number of people riding in the wagon is greater than the number of people pulling the wagon.

But, as a friend of mine from Ireland explains, there's no way to kick the can down the road. Here's some of what Constantin Gurdgiev wrote for Canada's Globe and Mail.

"…the euro area as a whole is no longer an engine for real business creation, productive investment, entrepreneurship or competitive development. The euro area combines some of the world's fastest aging economies with a decades-old ethos of entitlements-driven policy making. Telling a European that one has to earn her or his health-care benefits or social insurance or pension or access to amenities and infrastructure is equivalent to challenging a brick wall to be flexible and dynamic. Europe as a cultural, political and economic institution has evolved into a status quo preservationist society, where anything new is seen as a challenge to be resisted — i.e. regulated, restricted, taxed. All solutions put forward to date — especially the euro-bonds and top-up bonds proposed by the EU Commission this week, as well as the idea that the ECB should dramatically expand its sovereign debt buying programs — are amounting to a desperate search for another credit card to roll existing overdrafts into. In effect, the euro area is electing to get sober by getting more drunk and is doing this while walking along the precipice of the fiscal and growth cliff."

Constantin hits the nail on the head. You can't solve the fiscal crisis without economic growth, but it's virtually impossible to get robust economic performance with a bloated public sector and populations that have been infantilized by government dependency.

Yes, there are solutions to the mess in Europe. The obvious answer is to copy the Baltic nations and slash government spending.

Or governments can default, which would be disreputable, but at least they would then be cut off from credit markets, thus making it much harder for them to engage in debt-financed spending.

In a perverse way (sort of like watching a slow-motion train wreck), it will be interesting to see what happens in the next few months. The only thing we can say with certainty is that the United States should follow these five lessons so we don't make the same mistakes.