



danieljmitchell Dan Mitchell

@davidfrum Agreed. Italy's deficit is less than US (though accumulated debt is much larger). Big problem is lack of growth, too much statism

15 hours ago



davidfrum davidfrum

@danieljmitchell Greece an unusually badly run country. But Italy is running a primary surplus

16 hours ago



danieljmitchell Dan Mitchell

@davidfrum Baltics are growing again. Unemployment is coming down. Not great shape yet, but much better off than Greece and rest of S Europe

15 hours ago



davidfrum davidfrum

@danieljmitchell The Balts are in better fiscal shape at price of being in terrible economic shape



danieljmitchell Dan Mitchell

@davidfrum We agree there is no happy outcome. Real question is which approach minimizes long-run pain and avoids short-run instability.

15 hours ago



danieljmitchell Dan Mitchell

@davidfrum Yes, Baltic nations had relatively sharp downturns, but now have bounced back and are in much better fiscal shape.

15 hours ago



danieljmitchell Dan Mitchell

@davidfrum Baltic nations have done what S. Eur. should do. They imposed real spending cuts. danieljmitchell.wordpress.com/2011/05/10/let... and danieljmitchell.wordpress.com/2011/05/13/as-...

15 hours ago



davidfrum davidfrum



@**danieljmitchell** Countries on verge of dropping out of EZ will use currency controls etc

16 hours ago



davidfrum davidfrum



@**danieljmitchell** Depressions are very bad for libertarian principles.

16 hours ago



danieljmitchell Dan Mitchell

@**davidfrum** Reminds me of a libertarian t-shirt I used to own: "Democracy is two wolves and a sheep voting what to have for lunch"

15 hours ago



davidfrum davidfrum



@**danieljmitchell** But the pro-market E Europe nations are clamoring for Euro rescue. What's happening to Balts especially is horrible

16 hours ago



danieljmitchell Dan Mitchell

@**davidfrum** So the French and Germans will have unholy voting alliance with Spaniards and Italians to screw pro-market E. European nations

15 hours ago



CatoInstitute Cato Institute

Follow Cato's [@DanielJMitchell](#) now as he discusses the European fiscal crisis live via Twitter with [@DavidFrum](#)

16 hours ago



davidfrum davidfrum



[@danieljmitchell](#) Radek Sikorski's speech tomorrow will make this point very forcefully & eloquently

16 hours ago



davidfrum davidfrum



[@danieljmitchell](#) Which is why any fiscal centralization has to be joined to EU democratization.

16 hours ago



danieljmitchell Dan Mitchell

[@davidfrum](#) Also, French and Germans will use centralization to push tax harmonization and undermine competition from Estonia, Slovakia, etc.

16 hours ago



davidfrum davidfrum



[@danieljmitchell](#) The irony is that in many ways govt receivership was the more conservative option back in 08. John Makin argued this too

16 hours ago



danieljmitchell Dan Mitchell

[@davidfrum](#) On fiscal centralization, Ger. control of S. Eur. budgets will lead to more prudence, but high cost to democracy and sovereignty

16 hours ago



davidfrum davidfrum



[@danieljmitchell](#) And it's damn scary that we have no idea what's lurking around the corner, just like 2008

16 hours ago



danieljmitchell Dan Mitchell

[@davidfrum](#) If any US banks go under because of CDS exposure, put them into govt receivership and fire management. Teach 'em a lesson.

16 hours ago



davidfrum davidfrum

@danieljmitchell 100% agree with that.

16 hours ago



danieljmitchell Dan Mitchell

@Davidfrum I also worry that US banks may be exposed. CDS contracts probably shld require reserves, just like other forms of insurance.

16 hours ago



davidfrum davidfrum

@danieljmitchell We'll need bank rescues here too if US banks have been selling Euro CDOs on any scale

16 hours ago



davidfrum davidfrum

RT @danieljmitchell: Swedish-style bank rescues in Europe wd be expensive, but avoid moral hazard (like S&L bailout compared to TARP).

16 hours ago



danieljmitchell Dan Mitchell

@davidfrum Swedish-style bank rescues in Europe would be expensive, but avoid moral hazard (sort of like the S&L bailout compared to TARP).

16 hours ago



davidfrum davidfrum

@danieljmitchell But do you explain why you are so confident damage can be contained

16 hours ago



davidfrum davidfrum

@danieljmitchell Yes I read that. I totally agree moral hazard argument is real. We're still paying for LTCM bailout ...

16 hours ago





danieljmitchell Dan Mitchell

[@davidfrum](#) This blog post is longest I've written, but have run idea past IMF, Fed, JEC, and private sector financiers.
danieljmitchell.wordpress.com/2011/10/17/the...

16 hours ago



davidfrum davidfrum

[@danieljmitchell](#) ... in exchange for much tighter control of budgets of deficit countries. I don't like the politics, but the economics?

16 hours ago



davidfrum davidfrum

[@danieljmitchell](#) What about an explicit, transparent FISCAL solution? Not the ECB buying the bonds, but the EU assuming them....

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davidfrum davidfrum

[@danieljmitchell](#) What's yr best plan then? Have you written it long form- keen to read

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davidfrum davidfrum

[@danieljmitchell](#) but the failure of the EZ is ugliest of them all ...

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davidfrum davidfrum

[@danieljmitchell](#) The options now are all pretty ugly

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davidfrum davidfrum

[@danieljmitchell](#) Chinese currency manipulation incentivized China to export and US to borrow. N Europe not injured innocents here

16 hours ago



danieljmitchell Dan Mitchell

[@davidfrum](#) Which is why ECB should not be buying dodgy Greek, Italian, Spanish, etc, debt.

16 hours ago



David Frum davidfrum

[@danieljmitchell](#) But remember: the Euro incentivized southern Europe to borrow and Germany to export , just as...

16 hours ago



Dan Mitchell danieljmitchell

[@davidfrum](#) We largely agree on monetary policy, and also agree that a euro collapse should be avoided.

16 hours ago



David Frum davidfrum

[@danieljmitchell](#) What's being imposed on Greece and will be imposed on Italy & Spain is tough & painful.

16 hours ago



David Frum davidfrum

[@danieljmitchell](#) This really is a Credit Anstalt moment

16 hours ago



Dan Mitchell danieljmitchell

[@davidfrum](#) Fiscal centralization would exacerbate problem of excessive statism in Europe. In the long run, even worse than bailouts.

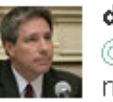
16 hours ago



David Frum davidfrum

[@danieljmitchell](#) There'll be a run on banks domiciled in every non-German/non-Austrian country

16 hours ago



Dan Mitchell danieljmitchell

[@davidfrum](#) Swedish-style bank rescues in Europe may be necessary and appropriate. Bailouts of national governments would be a big mistake.

16 hours ago



David Frum davidfrum



@danieljmitchell Credit default swaps have been issued against those obligations.

16 hours ago



David Frum davidfrum



@danieljmitchell Dan, that's so wrong!

16 hours ago



Dan Mitchell danieljmitchell

@davidfrum Nations defaulting do not threaten the euro, any more than states defaulting would threaten the dollar.

16 hours ago



David Frum davidfrum

And nobody would have known the disasters he averted by saving the US and world from the further collapse of 1932-33.

16 hours ago



David Frum davidfrum

Recovery would not have begun till 1931, and Hoover would surely have lost re-election and been remembered as a big loser

16 hours ago



David Frum davidfrum

The US & world economies would still have plunged into nasty recessions, leading to defeats of incumbent govts.

16 hours ago



David Frum davidfrum

If Herbert Hoover had had perfect foreknowledge in 1929, and had done everything right ...

16 hours ago



David Frum davidfrum

Here's something to think about when you wonder to do in a financial crisis ...

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David Frum davidfrum



@danieljmitchell The collapse of the Euro won't be contained at the Greek border - or at a few N european banks.

16 hours ago



danieljmitchell Dan Mitchell

[@davidfrum](#) Centralization and government bailouts will make the Europe debt bubble bigger. There is a good solution.
danieljmitchell.wordpress.com/2011/10/17/the...

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davidfrum davidfrum

The evil is not the bailout. The evil is the bank practices that made the bailout necessary to avert depression.

16 hours ago