Published on *Adam Smith Institute* (http://www.adamsmith.org)

Europe's road to serfdom [1]

Written by **Vuk Vukovic** [2] | Thursday 15 December 2011

The deal was struck. The EU and the eurozone are on a new path towards a more strict fiscal union. And with the deal, it is very likely a move towards a double speed Europe, or a union within a Union. Britain has isolated itself from the new treaty by a veto from its PM David Cameron. Whether such a move is good or not for the UK, only time will tell. It would be frivolous to make predictions now, as it is likely that Britain will remain a part of the EU, only now left out of some main decision making and possibly regulatory standards. This isn?t necessarily bad, as Britain mostly suffered under various EU labour and financial market restrictions, but it is an open question on how Britain might suffer politically.

The treaty agreement itself is much more a plea towards fiscal discipline and austerity than it is a solution to Europe?s major problems. It lacks a long term strategy apart from hope that within a fiscal union there will be less scope for irresponsible behaviour and everyone will have to act as Germans. If they were treated as Germans by the bond markets before, now they will finally have a chance to act like ones.

The budgets of eurozone members need to be balanced or in a surplus. This will be introduced in each country?s legal system and possibly be overseen by the European Court of Justice. If any country breaches the 3% deficit ceiling (which was the initial requirement for the euro introduction) it will suffer automatic consequences and possible sanctions unless, of course, the majority of other nations oppose. I see room for political mischief once more.

The financial measures in place were designed to increase the firepower of the eurozone institutions to rescue the currency and its most endangered member states. There is a new rescue mechanism, the European Stability Mechanism which is to hold €500bn, and there is an additional €200bn to arrive through the IMF.

The problem with the current plan is that it requires more and more bailouts, which essentially implies more and more debt accumulation. The socialist foundations of Europe are falling apart simply because they refuse to realize (or are unable to realize) that socialism and the welfare state are unsustainable, once you run out of other people?s money, that is. The dependency of peripheral nations is causing the highest burden on the eurozone. Its core members don?t have sympathy towards these countries, they require bailouts to save their own countries? banks who plied up on peripheral debt due to Basel capital requirements ? another example of European regulatory oversight that ended up increasing systemic risk of the financial sector rather than decreasing it.

As long as the EU officials close their eyes on the only plausible solutions left ? defaults that will end further bailouts and dependency ? Europe will remain in dire straits. More socialism and more faulty

policies that caused the current situation cannot be the answer to its problems. The response must come from a different perspective ? just like it did in the 1980s. The question is how much longer will it take for the policymakers to realize they are on the road to serfdom.

blog comments powered by Disqus [4]

Source URL: http://www.adamsmith.org/blog/international/europes-road-to-serfdom

Links:
[1] http://www.adamsmith.org/blog/international/europes-road-to-serfdom
[2] http://www.adamsmith.org/authors/vuk-vukovic
[3] http://disqus.com/?ref_noscript
[4] http://disqus.com