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The political and the economic [1]

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It does begin to look as if Lehman 2.0 is not far off. This one will not be caused by greedy bankers taking reckless risks, any more than the first post-Lehman crash was caused by that. This one seems to be coming about because of a disjunction between economic necessity and what politicians are prepared to do.

It is difficult for democratic governments to implement draconian austerity packages. The government of Greece is discovering this, but it is part of a wider truth that governments which do this will face punishment by their electorates.

There is, in addition, a more important disjunction between economics and politics at the EU level. It is that commitment to ?ever closer union? makes some politicians baulk at measures that would imply a retreat from that ideal.
In a sane world Greece would have defaulted two years ago, left the eurozone and devalued. Their goods would have become cheaper to sell abroad, and foreign goods dearer to buy. The odds are that Greece might now be on the road to recovery. But if countries leave the euro, it implies a setback to the ?inevitable? drive to political union. Eurocrats have tried to paper over the problem instead, limping from one bailout to the next.
To those committed to a European super-state, it would be a disaster if some countries were to quit the euro. The problem is that economic reality says they must, and delays to the advent of that reality will make the crash much worse when it does break through. It will be the vanity of politicians that brings about Lehman 2.0, as it must.

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