OPINION

The Euro's Instability Pact

By Mojmír Hampl

Europe's current efforts to repair the foundations of the euro area, shaken so desperately by the Greek crisis, are understandable but probably doomed to fail.

The problem is that in the past, the euro's Stability and Growth Pact, which was supposed to restrain budget deficits and national debt and be respected in the whole European Union, was softened. And even that softened version was violated, and those violations punished only for appearance's sake, or not at all. Consequently, many countries' budgetary problems grew to unsustainable proportions during good times, and as soon as the bad times hit they started to rattle the very foundations of the euro zone.

But it's doubtful whether the Pact can really be tightened and enforced in a way that can prevent the next crisis. When I read the ideas that EU President Herman Van Rompuy's so-called Task Force is busy producing, I cannot help thinking that some stains cannot be removed without damaging the fabric.

Strictly speaking, it is impossible to effectively enforce supra-national rules among nation states that have sovereign budgets. Take any of the proposed sanctions that are now in play and imagine how they will work in bad times. If you take European funds away from a country with a high deficit, you will probably increase—guess what—the deficit.

Money from structural and cohesion funds or even payments to farmers are often tied to long-term projects and obligations. They cannot easily be "switched off"—they will have to be paid out by national authorities. If EU funds stop flowing, national governments will merely go deeper into debt.

The same goes for fines or deposits into the club's joint budget. Lower revenues or higher expenditures will only aggravate budgetary problems. Moreover, a fine that is supposed to act preventively and be imposed in good budgetary times might not be very painful—if it can be imposed at all. It wasn't really possible in the past, after all. Right now the dangers of over-indebtedness are clear. But as the economy recovers, higher debts and deficits will once again appear optically and politically more "sustainable."

So far nobody has suggested draconic sanctions, whereby a budget sinner would, for example, pledge not only "forfeitable deposits" but also extensive national assets to the whole club. Those assets would simply be forfeited to other euro-zone members if any given country's budgetary problems persisted, like a pledge on an unpaid debt. Stakes in national energy champions could serve this purpose well, for instance.

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But this would be hard for many countries to accept, and many governments would rather opt for debt restructuring or bankruptcy, which—and it seems almost cynical to state this obvious truth—would hurt less. When a country goes bankrupt, its assets are not distributed among its creditors, unlike when a private firm goes bust. But as long as default and restructuring remain taboo in the currency zone, bailouts will be their only substitute.

Ideas about restricting the voting rights of disobedient countries and introducing greater federalization of budgetary policy will hardly receive unanimous support, and rightly so in a community of fiscal sovereigns. True, the EU will likely agree on the mandatory submission of key national budget parameters to Brussels each spring. But so what? National parliaments will still approve the real budgets at the end of the day. Not surprisingly, this proposal to submit budgets to Brussels has received broad support—not because it is so brilliant, but because it might mean so little in practice.

It would be unfair to blame Mr. Van Rompuy for all this, as many seem to be doing now. Some pipe construction and design faults cannot be repaired even by very determined plumbers. It is naïve to replace one set of unenforceable rules with another set of, presumably better but still unenforceable rules, and still expect dramatic change.

A monetary union without a state is a unique experiment. By definition, the national budgetary sovereignty of the euro-zone's members doesn't go too well with the strict enforcement of supra-national rules. It is like having the power to sentence culprits but leaving it up to them whether they actually go to prison.

As the future probably holds neither a fully functional European state nor a perfectly functional monetary zone, there is probably no way out of this problem. Unless, that is, if all the euro-zone members and the whole EU truly, authentically and voluntarily wished to pursue disciplined and sustainable budgetary and macroeconomic policies from now on. But who would bet his monthly pay on that?

Mr. Hampl is vice-governor of the Czech National Bank and a member of the EU's Economic and Financial Committee.

What's the Matter With Wall Street?

By Andy Kessler

What's wrong with Wall Street? I don't mean the pain-

term mortgage rates. In January, Wall Street could borrow in the short-term market at 0.15% and buy 10-year bonds paying close

Thirty-year mortgages in October 1981 were 18.45%—now they are 4.28%. Over this period the stock market rose tenfold