April 15, 2013 – please see the new column (below) from Mr. William R. Rhodes and note information on his book, "Banker to the World: Leadership Lessons from the Front Lines of Global Finance," at the foot of the article.

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Could France be the next country to join the casualty ward?

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Bill Rhodes: Economic view

Eurozone's crisis of leadership

Complacency pervades the eurozone's political authorities. They are failing to determine a comprehensive set of banking, financial and fiscal policies, combined with clear implementing timelines, to resolve the region's triple crisis of lethal sovereign debt, slumping growth and rising threats to political stability.

Unless today's ad hoc approaches are replaced swiftly with a credible strategy, the eurozone could face a lost decade of growth, just as Latin America did in the 1980s and Japan in the 1990s.

The debacle in Cyprus highlights the disastrous sticking plaster management that has characterised the response by Europe's leaders to economic problems ever since Greece announced its budget crisis way back in December 2009. At times, the combined forces of the eurozone's leadership, including its politicians, the technocrats at the European Commission, the European Central Bank and the IMF, resemble the gang that could not shoot straight.

Unfortunate precedents were set last week to resolve the chaos in Cyprus's finances by penalising bank depositors and establishing capital controls within the eurozone. As a result, confidence could be weakened in banks in a number of the zone's member countries and could further erode the financial health and prospects for growth in Greece, Italy, Portugal and Spain.

Mismanagement of sovereign debt difficulties is leading an increasing number of the 17 countries in the eurozone into serious growth difficulties. Total eurozone unemployment now exceeds 19 million, representing a 12 per cent jobless rate, and is heading well above 20 million. The numbers in several countries are extraordinarily high (over 26 per cent, for example in Spain and Greece) and present policies offer little hope for the jobless. At a minimum, the ECB should respond by cutting interest rates.

Inevitably, the combination of rising debt and growth problems are taking a political toll. The environment, as we are starting to see in Greece, Spain and in Italy, is rife for populist movements and direct challenges to democratic institutions.

Could France be the next country to join the casualty ward? Its economy is stagnating, the budget deficit is rising, the jobless rate exceeds 10 per cent and President Hollande is seen to be flailing around in search of support for his ever-changing policy approaches. His popularity is eroding and more large-scale public protests are likely. France, the zone's second most powerful member, is now in a weak position to influence eurozone-wide policies and set them on course.

Germany should be leading the region, but Angela Merkel seems content to do no more than the absolute minimum before elections in September. She has vowed to maintain the eurozone but has been largely unwilling to support crucial actions — for example, ensuring a firm timetable for the establishment of a eurozone banking union under ECB leadership. In time, Germany's economy will suffer significantly unless it steps up to lead the zone on to a confidence-building strategic course.

Such a course needs to start by granting the ECB the authority to supervise the zone's banks effectively. The Cyprus crisis demonstrated how essential it is for the eurozone to have a central banking regulatory authority that separates governments and banks and that has meaningful powers on resolution and deposit insurance.

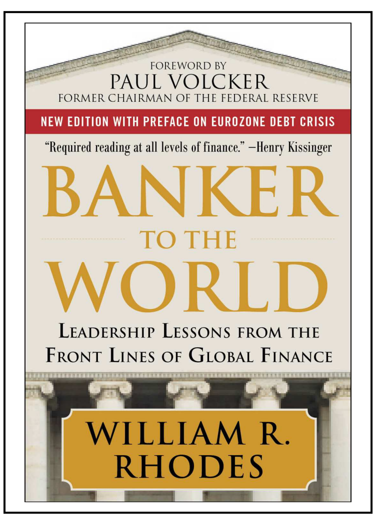
Over time, there can be no hope of sustaining the euro unless there is a realistic fiscal compact in place. The Europeans have talked about this for a long time, but have failed to implement it. This failure is a fundamental flaw in the whole single currency idea.

Further, a strategic plan now requires strong, eurozone-wide financial support systems. The ECB's Outright Monetary Transactions alongside the European Stability Mechanism need to become fully operational. A vital step is that the ECB and ESM clarify for potential borrowers and the markets the conditions under which funds can be drawn.

A banking union-fiscal pact-financial support strategy will not be credible unless accompanied by implementing timetables agreed by all eurozone governments. This would provide leaders in each of the national governments with a policy framework upon which to formulate sound national economic growth policies — ones that will demand prudent budget reforms and substantive structural adjustments to make their economies more internationally competitive. The test of leadership will be the ability of those in power in Europe to convince their electorates that their policy agendas will revive growth over time. European leaders now need to embrace the kind of course that proved so successful, for example, for Brazil in the early 1994, South Korea in 1998 and Turkey in 2001.

At stake is more than the economic and political health of much of Europe. The prospect of more confusion and inadequate leadership in the eurozone, prompting recession and rising joblessness, will spill over and damage prospects for Europe's big trading partners, including China and the United States. It will also add strains to the international financial system.

The overall consequences of continued complacency among the eurozone's leaders will have profound global consequences, perhaps for years to come. And those who may still believe that leading economies and markets can delink from Europe underestimate the inter-connectiveness of all our economies today.



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The new edition of Mr. Rhodes's book contains a preface that relates the lessons of past sovereign debt crises to today's eurozone crisis.

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