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# Vote could end French-German alliance

By Rob Rikoon | For The New Mexican

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Elections are coming up in Europe and their possible impact on financial markets cannot be overemphasized. French President Sarkozy appears to be running behind Socialist candidate Hollande, and if Sarkozy loses, the French-German alliance that has pushed the European Union forward may tear apart at the seams.

The Dutch government recently disintegrated over its financial recovery program. Greece and Spain both face discontented populations that are sick and tired of bearing the brunt of austerity measures that supra-national institutions are intent on imposing.

If the citizens of just one European nation vote strongly enough against the ruling parties, investors everywhere need to beware of the strong likelihood of a major tumult in overseas government bond markets. The current tenuous situation wherein central banks are propping up commercial banks that buttress government borrowing is in danger of falling apart.

If this delicate balancing act is upset by a lack of confidence in prospective new European policymakers, there is little doubt that a wave of panic that bond vigilantes might unleash will spill over to European stocks.

Occasionally, someone in a powerful position speaks out with the truth. Jens Weidmann, the head of the German central bank, recently made no bones that all of the measures taken so far in Europe to create financial ties strong enough to pull weaker members out of their morass are inadequate. He went on to state that either governments give up some of their national sovereignty over budget matters or else submit to stricter controls that, if breached, impose severe penalties on the offender. This would have the same effect as the compromise made last fall in the U.S. Congress that states that unless there is a budget deal by the end of 2012, all programs, including defense (but not congressional salaries) get cut.

There are other similarities between our situation and theirs. The European equivalent of our Federal Reserve Bank has swollen in size so that troubled commercial banks and wayward political entities can borrow cheaply and appear to be on sound footing. Our housing agencies continue to eat up billions of dollars every month to keep up the charade. The European and U.S. central bank both keep on printing money so they can buy their own governments' bonds. And they keep watering down their standards of asset quality so as to not torpedo the domestic economies by asking people to live within their means.

Individual country by country budget goals, set in 2009 as a condition for the first set of European bailouts, were supposed to be cast in stone and to take effect by the end of 2013. They are already seen as unobtainable and any administration that tries to implement the necessary austerity measures to meet them, whether in France, Greece, Spain, Italy or Portugal, will likely be voted out of office. This is what happened in Holland a few weeks ago and why France is facing a potential meltdown after Sunday's election. The German government is committed to fighting inflation by not borrowing and, much like the American tea party, it is loath to give its national credit card -- its budget surplus -- to the rest of Europe or to indefinitely go on paying the bill for other countries' excessive spending.

There are many smart, well-meaning people working hard to keep the European situation from spinning out of control. At the same time, people everywhere are tired of earning less and paying more for essential items, so their patience with politicians and bankers is justifiably running out. European, American, Japanese and Chinese governments continue to take value away from their citizens by printing money, taking on debt, and avoiding the harsh reality that many old companies and structures need to go away. Listen carefully to candidates and their campaign rhetoric for signs of substance, courage or insight. If you find them lacking, maybe it's time for a new political party.

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