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Real Money: Europe's civil war and the markets

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We are in the middle of the European equivalent of the U.S. Civil War (1860-1865). That war, the bloodiest in our nation's history, was fought against the wishes of the vast majority of the public whose opinion was, in retrospect, thankfully ignored. Likewise, most citizens in the countries that make up the European Union have no desire to give up their national sovereignty or to financially support other people's lifestyle. Nonetheless, pan-European bureaucrats have no choice but to advocate for a fiscal and eventual political union in order for Europe to compete in global markets and to avoid repeating the long history of intra-European armed conflict.

Taken as a whole, Europe is the world's largest economy; it makes up 25 percent of global output and consumes 30 percent of the planet's annual production. Seven of the 10 most competitive economies are in Europe, and five of its northernmost members account for 25 percent of worldwide research and development spending every year. European companies whose activities span over several continents are certainly hurt by turmoil in their home country but this hasn't stopped U.S. multinationals from consistently putting half of their foreign investment into Europe over the last decade, about 70 percent of that into the northern tier nations. When stock prices drop due to upsetting news out of the EU, we see opportunities to buy high quality, sustainable dividend paying companies that can take advantage of Europe's size, huge reservoir of wealth, advanced infrastructure, and sophisticated and well educated population base.

This is not to say that there will not be battles lost along the way to an integrated Europe. Individual countries may go bankrupt, political events may turn temporarily violent and much money will probably be lost along the way, especially in government bonds. In the end, Germans will end up paying in more and getting less out of their EU membership than others will, such as France, but this is how "federal" governments operate.

A "United States of Europe" will backstop its banks with FDIC-like insurance while a combined budget process and joint bond issuance will drag down Germany's credit rating. All of this will send investor money into our markets and buttress share prices of blue chip American companies. It's not that we have our financial house in order, our total debt exceeds that of the EU, but Americans tend to have a greater willingness to change course and renegotiate contracts through bankruptcy or voluntary reorganization.

When West Germany took on responsibility for resuscitating East Germany after the fall of the Iron Curtain, they did so through privatization, reducing labor union and tenant powers, and by lowering tax rates. It remains to be seen if individual countries in Europe have the will power or stomach to face strong public backlash against the first of these two measures. Presently, they are taking the opposite tack on tax rates, levying new income tax surcharges on upper income people and attempting to add more sales tax on everyone, not great recipes for long term growth. A combined European nation of nations might be able to break the cycle of government largess and financial irresponsibility.

Here in the U.S., there have been some instructive and positive developments recently, where voters indicated that entitlements promised in former flush times should not dictate the course of the future. The USA retains a global lead in creativity and, if we could combine that with getting our various governments' fiscal accounts in order, a much desired blossoming of employment and investment opportunities would arrive on our shores, probably well before the civil war in Europe is over.

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