Lessons to be learned from a gloomy Europe

IT is gloomy here in England as I near the end of our vacation. The extraordinary light of late summer and the colours of autumn have long gone. It is also gloomy because of the economic news, and this sort of gloom spreads right across Europe.

When we arrived here in July there was an optimism that the recession was over and fallout from the global financial crisis had been contained. Only Iceland and Greece had their hands up from assistance from the other European nations. Otherwise, the shared task across Europe was to pay down the debt incurred in bailing out banks and funding European rescue packages.

But last week Iceland also stuck its hand up and agreed to negotiating to meet its debt obligations. Like for Iceland and Greece, the big European nations — Germany, France and Britain — have agreed to guarantee Ireland’s public debt and pump liquidity into parched local banks.

And now concerns emerged that Portugal may also be close to requiring emergency funding assistance.

If so, that will pretty much exhaust Europe’s emergency funding pool. And then lies a huge problem. When the euro was adopted as a common currency for Europe on New Year’s Day in 1999, it seemed like a sensible idea. One currency for one continent made trade between European nations very simple.

And Freed Europe’s small nations from having to do daily battle with currency speculators. The one big time of deep crisis, however, is it isn’t possible for Greece to devalue its drachma, or for Portugal to devalue the euro, or Ireland to devalue the Irish pound, or to cut matching interest rates. The drachma, the euro and the Irish pound no longer exist.

Instead, Germany, Portugal and Ireland are stuck with the euro, and the value of the euro is determined by the strength of the economies of the big European nations.

So, in the absence of a devaluation option, Ireland has been forced to adopt drastic alternatives. Its recent budget cut public-sector salaries by between 6 per cent and 13 per cent and lowered the minimum wage by 12 per cent. In other words, the government told its citizens’ work for less.

Then it cut government spending, especially on welfare, and whacked on higher taxes – with Ireland’s GST set to rise to 21 per cent.

You can imagine the Irish are not happy with the medicine they’ve been forced to swallow, especially faced with the rising cost of a pint of Guinness to wash it down.

The good Irish folk are also pleased that it is your ordinary Paddy and Mary who are being called on to salvage a debt-ridden Irish economy that was not of their making. The problem, they write in letters to The Irish Times, was created by the banking sector and its liberal, irresponsible lending practices.

All the major Irish banks have now been bailed out by the government. One suspects, though, that it will be more than the current generation of working Irish men and women who will suffer.

In the end, though, Iceland, Greece, Ireland and Portugal are small economies. Their problems don’t have huge flow on effects elsewhere.

But things could get very ugly if the public debt problems being experienced by Spain and Italy become chronic. Some commentators say that debt problems in Spain and Italy have the potential to bring the euro zone to its knees, perhaps forcing each nation to once again take control of its own currency.

It should be understood, though, that a default on public debt by Spain and Italy is highly unlikely.

That said, it is extraordinary that respectable analysts are even contemplating the possibility of default by a major nation. Before the global financial crisis this was unthinkable.

What then for Australia? Again we are the lucky country. Our natural assets, our quality workforce, our lifestyle, and our location on the edge of Asia with its growing markets, mean that Europe’s gloom won’t reach down under. And give thanks for that.

But there are lessons, irrespective. First, we must continue to ensure our banks are regulated and strong. Unlike other economic sectors, when banks collapse everyone suffers.

Second, we should be more mindful of the conditions of our neighbouring nations. Australia prides itself on being a robust democracy where every citizen has a reasonable chance of living the good life.

Frankly, though, we care little about democracy and quality of life for our neighbours. One day we will rue such neglect.

And third, we should take advantage of our good times and invest in our future, especially in the education of our young, and in quality infrastructure that will drive our economy forward.

Professor Philip O’Neill is director of the Urban Research Centre, University of Western Sydney.

Newcastle the winner in Jets’ ascendancy

Their booming win is reverberating far and wide, writes Jodi McKay.

What a night.

When David Beckham and his LA Galaxy teammates landed at Newcastle on Thursday, the roar of the Jets taking off from the air force base gave them a sense of what was in store at EnergyAustralia stadium on Saturday.

That night, all of Newcastle heard the roar of the sell-out crowd reach fever pitch when the Jets nailed the roar of the sell-out crowd reach fever pitch when the Jets nailed

 Those upgrades will provide the Newcastle Jets, the Newcastle Knights and the community with one of Australia’s finest regional stadiums.

Saturday’s success has another layer, beyond the enormous pride that the people of Newcastle are feeling at the Jets’ victory.

This week FIFA will announce its decision on the host for the 2022 FIFA World Cup. Australia has a strong case and the NSW Government has played a significant part in putting that forward during the bid process.

If Australia is successful, then Newcastle will play a significant role as a world cup city. Over the past few months we have worked to ensure we can create a world leading sporting and entertainment precinct at Broadmeadow.

As a city we stand ready for whatever will be expected of us, and we will ensure that decisions are community-based and bold in thinking.

Jodi McKay is Minister for the Hunter and member for Newcastle.

Today’s fact

Lions can devour 34 kilograms of meat in a single meal.

Today’s word

None: a punning expression used to convey annoyance or distaste.

It happened today

From our files — 1932: A mirage of the Lions has been seen where the mirage seemed as though cliffs of water reared against the sky.

Today in history

1350: Sir Francis Drake returns to England from circumnavigating the globe.
1865: First gas lighting in Brisbane.
1922: Archaelogists announce they have found fabulous treasures in the tomb of Tutankhamen in Egypt.
1963: US President Lyndon Johnson names a commission to investigate the assassination of President John F. Kennedy.
1986: Death of British born film star Cary Grant.
1989: Romanian gymnast Nadia Comaneci flies to Hungary.
1994: The US House of Representatives approves the GATT trade agreement.
1999: Northern Ireland’s rival parties form a Protestant-Catholic government that requires bitter enemies to share power for the first time in history.
2004: The Vatican imposes restrictions on some of the Catholic priests who may enter gay men must first overcome any “transitory” gay tendencies.

Born today

Louisa May Alcott, US author (1832-1888).
Janet Holmes a Court, pictured, Australian businesswoman (1943-)
Brian Cadd, Australian composer/rock musician (1946-).
Don Cheadle, US actor (1964-).