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Brexit a Wake-up Call for Eurozone Politicans

The 'Yes' Brexit vote surprised everyone, but I guess it reflects the feeling among many in the UK that they simply have seen little benefit from EU membership, and uncontrolled immigration appeared to be the last straw.

The lack of satisfaction in *'the system'* has been amplified since the Global Financial Crisis (GFC), and, in my view, it would be wrong to assume this dissatisfaction is a UK issue only. In fact, I believe it reflects a huge failure by politicians in Europe - and possibly in the US - to implement policies to encourage economic growth and wage growth following the GFC.

If we examine the response by authorities (politicians and central banks) to the GFC, it is self-evident that quantitative easing (QE) - while the correct course of action to offset the contraction of assets (money) within the banking system, which, if allowed to continue unchecked, would almost certainly have led to an economic depression - has favoured those in society with assets. Few will argue that QE has played a significant role in lifting asset prices post the GFC, both equity and property prices. But, QE has not lifted incomes!

The other side of the QE coin is no return on bank deposits for savers, who are paying the price for central banks lowering the cost for borrowers who, otherwise, could not afford to carry the debt, including governments. However, savers can have little complaint at this outcome. After all, if the banking systems had been allowed to fail in 2008, not only would shareholders have been wiped out (which they were) along with senior and junior debt holders (probably unfairly protected), but ordinary savers' bank deposits and pension assets sitting on bank and (some) insurance company balance sheets would also have been imperiled (in Ireland, that included those with savings in BOI, AIB and IL&P). Many in society either don't seem to understand, or choose to ignore, this fact.

The other response to the GFC was austerity. Some of it was necessary, particularly in Ireland, where a Fianna Fail Government's overspending during the years 2002 to 2007 was so inflated that it would have most likely led to a fiscal crisis whether we had a banking crisis or not. But austerity on top of low economic growth (depressed by the debt load) has led to high unemployment and low wage growth since, so that those in society without assets are suffering much more than those with assets.

I am of the view that while austerity was necessary at the outset to trim poorly targeted government spending leading up to the GFC, politicians should have long ago moved to implement the second stage of recovery. The first stage was QE, and the second stage should be fiscal boosting i.e. increased government spending aimed at lowering unemployment, strengthening demand and increasing wages. The caveat is that such government spending would have to be financed by central bank money printing. But so what! Printing money lowers the burden of debt and has, over the centuries, been the time-honoured way to get out of a debt crisis. The alternative is to sit around in misery arguing that the next generation should reap the benefits of our self-flogging.

The quid-pro-quo, of course, is that any country that prints money to fund additional government spending - when it can't afford to - is likely to see its currency debased. After all, printing more of the same out of thin air leads to a lower price. Within the Eurozone, of course, this isn't proving possible and it is probably the unconscious line in the sand for voters. The risk now is that other Eurozone economies - those that are suffering high unemployment, low wages and unrest - may follow the UK's lead and look to exit a system that imposes misery. And despite the Eurozone's worthy long-term goals (free movement of capital, goods, services and people), they might just be right.

It appears to me that Eurozone politicians, dominated by Germany, seem incapable of moving to implement the second phase of recovery post the GFC, most likely because, in a fixed exchange rate regime, it would have to be financed by the strong (Germany).

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A key message from Brexit, I believe, may well be that the risks of a Eurozone split have increased if politicians refuse to see the obvious; that the general populations want to see an improvement in their lot. Printing money to achieve this favours those with incomes and disadvantages those with assets (as currency devaluations reduce the worth of their assets). But, in the spirit of fairness in society, surely it is time to balance the scales back towards those who have suffered the most following the GFC.

Despite the GFC, I remain a believer that capitalism is the best economic model, but one also must be pragmatic and acknowledge that capitalism seriously misfired in the years leading up to 2008. For me, these arguments are not about whether capitalism is better than socialism. Rather, the politicians' job is to ensure fairness in society for the short time that we all share this world. If the Eurozone politicians are not listening, then who can be surprised if voters have a change of heart and start voting to dismantle their sacred (EU) project. That's the message I take from Brexit.

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