Commentary

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Gloat at Your Peril

The U.S. led the way into the global financial crisis, but it's also likely to emerge from the mess before Europe does

EUROPE'S SCHADENFREUDE ABOUT THE self-immolation of American capitalism did not last very long, and those who crowed about the humbling of the "hyperpower" should have known better. For it is an iron law of global economics that America goes first, and Europe follows; that has been true at least since the Great Crash of 1929.

The moral of this tale is that you can try to hide, but you can't run; there is no "decoupling," as the Europeans had hoped when the global crash was still a stumble back in January. Just look at the stock markets since the beginning of the year. By market close on Oct. 7, the Dow Jones Industrial Average had dropped by 27.5%; the FTSEurofirst 300 Index of European shares was down 32.5% over the same period. The pattern continues. As go U.S. shares, so go Europe's, but faster and harder on the downswing—and more slowly on the way back up.

There are good reasons for that. The U.S. is by far the largest economy in the world, more than three times bigger than no. 2, Japan. And with annual imports of more than $2 trillion, it is the world's shop-till-you-drop economic engine. If that engine stutters, the others grind to a halt. This is an old tale, but with a new twist to sober the Schadenfreudians: Europe's bankers and mortgage providers have been just as stupid and greedy as their American comrades-in-harm—and this in countries that pride themselves on having tamed the capitalist beast in the name of equality and social justice. So while the U.S. government has had to save Fannie Mae and Freddie Mac, Germany has had to save Hypo Real Estate with $69 billion. Berlin has also guaranteed all private accounts to the tune of $1.37 trillion. Britain has served up a bailout plan for its banks worth about $88 billion, and even Moscow has pumped $186 billion into the Russian banking system.

But something funny happened as the Europeans smugly watched the American behemoth stumble: the not-so-almighty dollar began to rise. Since mid-July the greenback has gained more than 16% against the euro. And why? Because for all its troubles, the U.S. still looks like a safer and ultimately more profitable haven than Europe, with its irreducible jobless rate of about 8%, or those trendy emerging markets that have now crashed back to earth. You would have thought the U.S. would be hemorrhaging trillions by now; instead the rest of the world is learning to love its currency again.

There may also be political reasons for this unexpected turn. When the crisis intensified in mid-September, Washington acted quickly. There was a Treasury Secretary to devise and present a rescue plan, and a Congress—after an initial case of the vapors—to act on it. But there is no Hank Paulson in Europe, nor a precise counterpart to Federal Reserve Chairman Ben Bernanke. Jean-Claude Trichet heads the European Central Bank, but it cannot play the lender of last resort, as the Fed did on Sept. 16 by loaning $85 billion to prop up the U.S. insurance giant AIG. In Europe, governments must act instead.

This institutional problem pales beside the political one: when crisis strikes, Europe almost never acts like a true union. After French President Nicolas Sarkozy summoned the leaders of Britain, Germany and Italy to Paris on Oct. 4, German Chancellor Angela Merkel coolly torpedoed his proposed $409 billion Europe-wide financial rescue plan. No money for the greedy fools of other lands, she seemed to say, only to then guarantee German private bank accounts and save Hypo Real Estate. That followed similar moves by Ireland and Greece. And Britain's Gordon Brown will always be loath to see Brussels lay its regulatory hand on London's City; his recapitalization of Britain's banking sector was no less unilateral than Merkel's actions.

On Oct. 7, E.U. finance ministers at least came to a rhetorical agreement to prop up "system-relevant" banks. But which are they, and how many billions does Europe have to deploy? We'll cross that bridge when we get there, the ministers mumbled; meanwhile, we'll wait for the E.U.'s summit on Oct. 15. Share prices, of course, did not wait to plunge even further.

This is the oldest European story in the book, the mother of all sobby mantras: no will, no purpose, no power. Yet Europe will get out of this mess by being Europe: by bickering, compromising, doing less than required, and doing it slowly. Americans underestimate the Old Lady's moxy just as Europeans underrate Yankee vitality and ingenuity. Still, it's a reasonable bet that the U.S., one nation with one government, will emerge from the wreckage sooner than the E.U. does.

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Still searching *Europe looks for a way out of the banking crisis*