

Lessons from Europe: Unless you have been hiding in Attorney General Eric Holder's "Fast and Furious" documents file, you know that trouble is brewing in Europe. Big trouble. Real big trouble. None of us know where it will go from here. But, I can see no good outcome. The experiment of monetary union without fiscal or political union has failed. Most of the solutions they are now discussing will simply delay the inevitable. Using debt that you have no plan to repay in order to pay other debts that you can't repay doesn't work with mortgages and will not work with governments. And, it is hard to even describe the political challenges they have over there. Look at the gridlock we have here with one country, one culture and 2 political parties. Now, imagine having 17 countries, dozens of cultures and a hundred political parties. I think you get the point.

Whenever the European crisis hits and however it is manifested, the US will be affected. It could affect us in a small way or a big way. That is impossible to predict at this point. It is also not possible to predict when it will hit, as doing so involves the collective actions of investors and politicians and companies across the globe. I can assure you that in Washington we are doing at least one thing on a bipartisan basis: We are trying to get ready to meet whatever challenges Europe may throw at us.

But, there is a way that we can actually benefit from the problems in Europe. And, that is to learn from their mistakes. I have oft repeated that in my business career (prior to losing my mind and going into politics) I learned more from hearing about others mistakes than I did about their successes. The successes seemed to involve sets of circumstances that I just could not replicate in my business. But, when I saw how the once mighty fell, I realized that those mistakes were easy to repeat and they would lead me to a similar miserable outcome. "Now I know what NOT to do," I would tell myself. I am a better person for having learned such lessons.

Well, here are 4 lessons we can learn from Europe. This is a list of what NOT to do. Unfortunately, each of them is still on somebody's "to do" list in Washington:

1. **Socialism Does Not Work:** It has now been tried in multiple countries for multiple decades and it has never worked. Describing socialism's faults, Lady Maggie Thatcher once famously quipped that eventually, "you run out of other people's money." Sir Winston Churchill more famously said, "the inherent virtue of socialism is its equal distribution of misery". And, economist Milton Friedman made it clear that it is senseless to tax the middle class in order to give them their own money back in inefficient government services that they could afford to buy themselves. Socialism in Europe and in this country always starts the same way - promise

people free health care and free retirement and free housing and whatever free stuff wins political favor. You claim that the "rich" will pay for this. But, the problem is that the rich do not have enough money. They have enough to pay for those free services for the very poor, but not for everyone. So, the socialists borrow the money. That way, they are still giving the populace free health care. But, at some point you can't borrow the money anymore because the people you are borrowing it from realize that they can never be paid back. This is the tipping point at which socialism fails. Past this point, you have to tax the people to whom you promised the "free" stuff in order to pay for their "free" stuff (those people are the middle class). The people suddenly realize that, "Hey, it's not free if you tax me to pay for my 'free' health care." In fact, the middle class understands they are far better off taking their own money and buying their own health care than having the government give them bad service at a high price. Europe is currently at the stage where they have run out of other people's money to pay for their socialism. "Austerity" is the politicians there telling the people that the stuff we promised you for free is really not free. The people understandably don't want to give up their free stuff or have to pay for it. But, they will have to do one or the other. And, an entire generation will suffer for having tried the failed model of socialism only to watch it fail again. We must not make the same mistake. "Obamacare" will hopefully be overturned or repealed. Medicare taxes currently only cover 1/3rd of Medicare costs and we currently borrow the difference (which means it's "free" right???) And, the metrics only get worse with each passing year.

2. Don't Wait Too Long to Fix it: Many of the debt problems of European countries were apparent years ago. But, they kept putting off the solutions for reasons explained in item number 1 above. As a result, they got to a point at which the depth of the problem had eliminated the efficacy of most possible solutions. We have a debt problem. The problems in Europe have actually bought us some time as we remain "the cleanest shirt in a dirty laundry bag". But, not much time. Our deficit has ballooned under Barack Obama. The government has spent into a trillion dollar deficit in every year of Barack Obama's presidency, and will continue to do so under his own budget proposal. This cannot happen or we will descend into decades of economic darkness and reduced living standards. We need to get on it now.

3. Don't Try to Fix it All at Once: Democrats in Washington decry the "austerity" programs in Europe for being responsible for plunging European markets into recession. They are half right. They are missing the message of the previous two points as to why Europe had to turn to "austerity". But that major issue aside, it is correct that Europe, because it waited too long, is now trying to fix its problems overnight. That is not working either. Big spending cuts and big tax increases thrown at a fragile economy will trigger recession. It has already done so in Europe and it will do so here. We should not fix our deficit in one year, even if we could find the political will to do so. We should move to a balanced budget over 5-8 years with a combination of cuts, reforms and growth. The economy would not adapt well to the shock of pulling \$1.3 trillion out of it in one year right now. And, if we take our time, the markets will react very favorably to the fact that we have and are implementing a plan to balance the budget over that period. Because markets are anticipatory, they will act as though we have already done it. And, compared to the rest of the world, we will have done an amazing thing.

4. **Don't Fool Yourself:** Some of you right now are about to hit your "reply" button to tell me how socialism and such in Germany has worked and ask why can't we be more like them? But, you are missing something. The Euro has been enormously helpful to Germany because it allowed the citizens of Greece and Spain and other less productive countries to buy German goods using an overvalued currency. If Greece (or any other country for that matter) leaves the Euro, their new valueless currency will greatly reduce the wealth of their population and they will buy a lot fewer German goods. Germany has been in a bubble supported by the Euro, which undervalued German goods and overvalued the ability of others to buy them. Assuming this bubble bursts, German output, and therefore their social programs, will also come under strain. They will be the last country in continental Europe to feel the pain, but they will feel it. We should never fool ourselves into false security when the basis of our security is unstable.

Europe is in trouble. The United States will follow them into trouble if we follow their path. Barack Obama wants to take us down that path. He could not be more wrong.