Yearender: Deeper than the debt abyss

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BEIJING, Dec. 20 (Xinhua) -- For the United States and the European Union, 2011 was obviously a year of debt distress.

The year opened with a deteriorating U.S. fiscal profile and a spreading European debt crisis, and lumbered through numerous rounds of grueling bargaining on both sides of the Atlantic. It seemed to end with neither entity in sight of the bottom of their debt holes.

But as many commentators and analysts around the world have observed, debt is just part of the story. The protracted debt struggles of the world's sole superpower and the world's most successful regional bloc have made plain that the outgoing year involved more of a leadership deficit than a fiscal deficit.

It appears that the policy making in Washington and Brussels has been handicapped by a gaping political and methodological divide, and the phantom of elections is eating away at what is left of their deal-making will and ability.

Given the economic heft of the United States and the EU in today's globalized world, the health of all other economies is also at stake in their debt crises and political paralysis. The whole world is looking forward to a change of heart in Washington and Brussels.

U.S.: PARTISAN FEUDING BEFORE ELECTION

The U.S. debt crisis surfaced in late January, when Moody's Investors Service announced that it might need to place a negative outlook on the triple-A rating of U.S. debt sooner than anticipated as the country's budget deficit widened.

The most notorious chapter of the U.S. debt crisis unfolded in the summer, however, when the Republicans and Democrats stubbornly engaged in a debt ceiling battle as their country slouched toward a potentially catastrophic default.

The two deeply divided parties did unlock their horns two days before the projected default date of Aug. 2, but the perversely long tug of war manifested that they were merely trying to secure maximum political gain from the bargaining before it was too late to reach a deal.

Such political brinkmanship and its destabilizing impact on Washington's decision-making worried the sober-minded. Days later, the Standard & Poor's (S&P) rating agency stripped the U.S. of the gold-plated triple-A credit rating it had held for 70 years.

However, the unprecedented downgrade did not put an end to the crippling partisan rivalry. With the 2012 presidential election drawing near, many pundits voiced the fear that deal-making would become even harder as the two parties shifted into election mode.

The gloomy prediction turned out to be true. The Democrats remained opposed to any proposal of structural reforms to big entitlement programs, while the Republicans kept the door closed on any move that could push up tax rates. They were too deeply entrenched to find common ground.

In November, a bipartisan Congressional "supercommittee" established under the summer's debt limit deal announced that it had failed to accomplish its mission of formulating a package of measures that would trim the U.S. budget deficit by at least 1.2 trillion U.S. dollars over the next 10 years.

The task group was granted extraordinary power, and its 12 members knew well that their failure would trigger automatic across-the-board spending cuts in the same amount. Half of those cuts would be inflicted on the Pentagon, a scenario many said would bite into Washington's muscle. But it failed.

"It shows that Republicans and Democrats, even when offered the best possible conditions for deal-making, can't do it," observed the British magazine The Economist in its Nov. 26-Dec. 2 issue. "By failing to agree on measures to limit the deficit, America's politicians have failed their country."

EU: FATED PAINS OF GROWTH

The situation is no less, if not more, messy and alarming on the other side of the Atlantic, where a flurry of meetings and summits have failed to contain the contagion of the continent's sovereign debt crisis.

From Greece, Ireland and Portugal, nations now on life support, to Italy and Spain, which are slipping down a similar path, the plight has snaked its way from the so-called peripheral nations to the nucleus of the eurozone. Even Germany and France are feeling the pinch.

With credit ratings falling and borrowing costs rising, European policymakers have been on the move throughout the year. The intense summitry showed that EU leaders were well aware of what was at stake.

Yet the awareness has apparently failed to translate into effective action. One meeting after another, European policymakers just could not overcome their political and methodological differences, coming up with only what were dubbed "piecemeal measures" just enough to hold back an immediate tailspin.

Confidence continued to retreat, while panic was gaining more ground. In early December, the S&P issued a warning of a mass eurozone downgrade, giving another turn of the screw before EU leaders met on Dec. 8-9 for what was widely dubbed a make-or-break summit.

The gathering made notable headway with all 17 eurozone countries and six other EU nations endorsing a fiscal pact to enhance budget discipline. But economic analysts and rating agencies said the deal fell short of what investors had expected.

The EU's difficulty in decision-making is understandable. The alliance comprises 25 sovereign countries whose national realities, interests and priorities vary greatly.

Even worse, the euro was rolled out without a mechanism to guarantee fiscal control, and European leaders always have domestic elections to worry about. As many analysts have pointed out, too, those innate flaws may be trivial in good times, but they are glaring in bad times.

The unexpected but later dropped call for a referendum on a hard-won rescue package by former Greek Prime Minister George Papandreou in early November might shed some insight on the complicated dimensions of EU policymaking.