Beware Greeks bearing spanners

"A clueless political personnel, in denial of the systemic nature of the crisis, is pursuing policies akin to carpet-bombing the economy of proud European nations in order to save them." Yanis Varoufakis the current Greek finance minister on ECB, EU, German (take you pick) economic policy.

This guy, and his boss Alexis Tsipras, are being portrayed in the massively manipulated "main stream press" as Marxist tyrants who will lead the Greek economy into ruin. Varoufakis' argument is that, courtesy of the Troika, Greece is already in that condition, but the root of the problem goes back much further. To get to join the euro club in the first place "convergence" had to take place.

By 2001, the year in which the first wave of Euroistas adopted the blighted currency as their own, even the Germans had worked out that interest rates across the member state would have to converge – to the rate enjoyed by Germany of course. Greek 10 year bond yields went from well over double digits to around 5% by the time the euro became a reality and hit a low around 3% in 2005.

Not quite down to German levels, but borrowing costs had fallen dramatically to the point where every Greek shepherd boy was driving around in a Porsche Cayenne. German industry cannot be supported by its domestic economy, so it has to be a global exporter and by having a hand in lowering interest rates across Europe the great machine is thus fed.

We are now rapidly approaching the day of reckoning. Like the shepherd boy the Greek government is not, and never was, in a position to repay the "generous" loans that were expeditiously foisted upon it. The correct medicine would have resulted in some serious problems for the banking system and not just in Greece. But instead of swallowing the red pill the good doctors prescribed the blue pill (piling on more debt) and everyone happily relaxed into a state of acquiescence and denial.

Varoufakis is now saying, not too subtly, that the German emperor has no clothes. The body language displayed at his meeting with Wolfgang Schauble was a picture! Wolfie said that they had "agreed to disagree"; Varoufakis said that, "they hadn't even begun to agree to disagree." He has written two books on game theory and whilst that doesn't make him an expert, in much the same way that a doctorate in economics doesn't bestow on him all the answers, at least he understands the rules of the game which the euronauts quite patently don't.

The Germans have said stick to the agreement or we stick it to you. The French on the other hand, realising that breaking the rules is usually their prerogative, have at least acknowledged that the Greeks might have a point. So the two major powers in Europe are starting to face in different directions. Then the Americans weigh in and line up with France. Not because they like the French (French fries are still off the menu State side) but because Greece - and little Cyprus - have a ton of oil and gas reserves and have always been a buffer zone in the Balkans.

The ECB has already cast the first stone by denying the use of Greek sovereign debt (which does not have investment grade status) as collateral in loan transactions. This means that they will, for the time being, have to go down a more expensive route (translating into an additional €60 million a month in interest payments) to borrow cash to prop up their banks. If there is no agreement by February 25th then even this facility will be withdrawn and Greece could be unceremoniously booted out of the club.

In the past, resolution of euro "conflicts" has been achieved by a mixture of fudge, obfuscation and outright lying. This time around the Germans potentially have more to lose than the Greeks so get out your books on game theory and place your bets.

Clive Hale – February 8th 2015
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