

View from the Bridge

By Clive Hale

an alternative look at the investment world

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Is this what Greece really wants?

As the euro crisis staggers on Greek EU commissioner Maria Damanaki has raised the prospect of her country being forced out of the euro zone if it does not quickly assert control over its wayward public finances. She said that "Either we agree with our creditors on a programme of tough sacrifices and results, undertaking our responsibilities to our past, or we return to the drachma. Everything else is of secondary importance."

However, the spokesman for economics commissioner Olli Rehn immediately dismissed the suggestion that Greece might return to the drachma. "The scenario of Greece leaving the euro has not been and is not on the table in the euro group of ministers," he said. Given the now infamous quote by Jean-Claude Juncker, Luxembourg PM and Head Euro-Zone Finance Minister that "When it becomes serious, you have to lie" that statement must be viewed with some scepticism.

Greece is facing "austerity" whatever is allowed to happen next. They have three choices. They do it themselves, which looks unlikely given past performance; the EU forces it on them, with a minimal amount of debt restructuring, or thirdly they take the nuclear option and kiss the EU and the euro goodbye.

Without a significant restructuring of debt with the first two options, the inevitable outcome is merely put off for another day, but is the preferred option of the ECB and the eurozone finance committee. They are acutely aware that the banking system would be tipped into another round of refinancing (best case scenario!) if debt restructuring for any or all of the PIGS became a reality. They will of course deny this as the latest series of stress tests on the European banks has determined that there is "nothing to see here so please move on".

Returning to the "new" drachma would force a debt restructuring by default along with a rather unpleasant devaluing of the currency. Belarus has just tried this trick and overnight imported goods, notably food and fuel, have quadrupled in price. On this basis Greece would again become the destination of choice for holiday makers seeking a bargain...once the riots and general mayhem had died down!

So the Greeks, and their stronger European "partners", find themselves between a rock and a bigger rock. The voters in Germany and Finland have signalled that they will not foot the bill and their counterparts in Spain, Ireland, Portugal and Greece do not want to pay

the price either. It is not as if this is just a eurozone problem. The march of globalisation means that "little old Greece" whose economic footprint in global terms is relevant only to the Greeks could be the first in a long line of dominoes to fall.

Economists are fond of believing that people act rationally. In fact they tend to act more like sheep as they are fed a diet of misinformation by politicians (it will become known as Junkerism...) and the MSM (main stream media). But if you combine adversity, bought on by austerity, with nationalistic tendencies (as expressed by the aforementioned voters), the emotional dam bursts and anyone with a cursory understanding of human behaviour will understand that the concept of rational thought in such circumstances, is not just irrational, but truly insane! Or maybe it's just being rationally insane!

So I wish the Greeks well – if you want to understand rational insanity visit a Greek taverna any night of the week – and leave you with some pertinent quotes du jour.

"The last duty of a central banker is to tell the public the truth." Alan Blinder vice chairman of the Federal Reserve 1994-96

"A hundred wagon loads of thoughts will not pay a single ounce of debt" - Italian Proverb

Bureaucracy defends the status quo long past the time when the quo has lost its status.
- Laurence J. Peter

Our constitutions purport to be established by 'the people,' and, in theory, 'all the people' consent to such government as the constitutions authorize. But this consent of 'the people' exists only in theory. It has no existence in fact. Government is in reality established by the few; and these few assume the consent of all the rest, without any such consent being actually given.

Lysander Spooner

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